Q1 2014 Sales and Revenue Call - Interim Management Statement

Company Participants

- Barry Lee Stowe
- Jackie Hunt
- Michael Andrew Wells
- Nicolaos Andreas Nicandrou
- Tidjane Thiam

Other Participants

- Alan G. Devlin
- Andrew J. Crean
- Andy Hughes
- Blair T. Stewart
- Farooq Hanif
- Greig N. Paterson
- Jon M. Hocking
- Marcus W. Barnard
- Oliver G. Steel

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the Prudential Plc 2014 Q1 IMS Analyst and Investor Conference Call. Throughout the call, all participants will be in listen-only mode and afterwards there will be a question-and-answer session. Just to remind you, this conference call is being recorded.

Today, I'm pleased to present the Group Chief Executive, Tidjane Thiam.

Tidjane Thiam {BIO 7518525 <GO>}

Good morning, everyone. I'm joined today by Barry Stowe, Mike Wells, Jackie Hunt, and Nic Nicandrou, our CFO. Prudential has delivered a strong and broad-based performance in the first quarter of this year. The group's new business profits have grown by 29% in the first quarter, outpacing APE growth of 13%. The flows that we collect in Asia and in the U.S. are received in local currency. Recent months have seen significant fluctuations in the value of a number of currencies in our key markets. So, we believe that the best way to look at the underlying performance of our businesses is on a local currency basis expressed through constant exchange rate. I will, therefore, use that basis throughout all my comments.

On constant exchange rates, the group's new business profits have grown by 44% while APE grew by 23%. Let me take you through the highlights for each of our main business units. In Asia, new business profit in the first three months of the year grew by 20% to £243 million, while APE grew by 17%, exceeding the half a billion level for the first time for our first quarter to £507 million.

This year has delivered a strong performance with many of our local business units, Hong Kong, Singapore, Malaysia, Takaful, Vietnam, Thailand, China and Taiwan achieving double-digit growth or more. There is a (1:56) GDP growth of Thailand. In the U.S., we have continued to focus on value over volume. Value, measured by NBP, grew by 67% as volume, measured by APE, grew by 29% over the first quarter of 2014.

The continued strong demand for our innovative Elite Access product. The beneficial impact of many pricing and product changes over the years and of higher interest rates, have all enabled us to write first quarter VA volumes at margins close to all time highs.

In the UK, new business profits grew by 90%, reflecting the successful completion of three bulk annuity transactions above our target rate of return. Our asset level in businesses continued to attract positive third-party net flows with £1.4 billion of inflows into M&G and £1.1 billion of inflows into Eastspring. So, the highlights of our first quarter are Asia NBP of 20%, U.S. NBP of 67%, UK NBP of 90%, positive M&G net flows of £1.4 billion and positive Eastspring net flows of £1.1 billion.

So, let us now take a closer look at each of our four businesses and starting with Asia. We've made a strong start to the year in the region with our sweet spot markets, delivering APE growth of 18% and NBP growth of 22%. Our leading distribution platform is, as usual, core to this performance, and in the first quarter, both our agency and bank channels continued to demonstrate strong momentum.

In the agency channel, new business profits in our sweet spot markets grew by 25%. This performance was mainly led by an increase in case sizes reflecting the rising wealth of middle class in the region and a higher number of cases for active agents, and a comparatively larger active sales force.

In the banking channel, new business profits from our sweet spot markets grew at a double-digit rate. In that context, European UOB International are delivering strong growth, complementing the well-known strengths of our long-standing relationship with SCB.

Our focus on selling regular premium products, which are an excellent vehicle for long-term savings and the scale and diversity of our regional platform have enabled us to deliver a strong performance, in spite of all the well-rehearsed concerns about emerging markets.

First, regular premium sales. The foundation of our growth in the region grew by 20% in our sweet spot markets. As I have indicated before, these regular premiums, which account for over 90% of our APE sales, are preferred by customers, to access our affordable long-term savings and protection products. The demand for these products from the Asian middle class has historically proven to be resilient across the market and economic cycles.

Second, our regional sales grew by 17%, with seven of our local business units delivering double-digit volume growth. As you know, Indonesia endured in the quarter a number of natural disasters, floods, volcano eruption, which have, of course, affected sales in the first two months of the year, as our agents simply could not move around, let alone, sell insurance.

The strong regional performance in the quarter where our largest business unit could only operate normally for a third of the time, for me, illustrates the power and resilience of our diversified platform. It also augurs well for our future, as we have already seen Indonesian sales recover in March.

I would like to make a few more specific comments about in succession, Hong Kong, Singapore, Indonesia, Thailand, and China. Our Hong Kong business continues to deliver an outstanding performance with APE sales up 27%, as it benefits from the growing wealth and prosperity of our customers particularly from Mainland China but also elsewhere in the region. Our agency channel in particular is experiencing good momentum with strong increases in both recruitment and productivity, complementing well our bancassurance distribution.

Moving on to Singapore, our twin-channel approach is delivering strong results with APE of 18% with both channels delivering double-digit growth, rising productivity in the agency channel up 24% in the first quarter and a 21% increase in APE from our rapidly growing bancassurance relationship with UOB were significant contributors to our first quarter performance. So, overall in Singapore, often, we believe wrongly described as mature have together delivered a 20% increase in APE in our first quarter, we believe in the long-term prospect of these two markets and for different reasons.

Hong Kong is an attractive destination for the middle class of Mainland China, adding further to the momentum of the local market and Singapore is a fast-growing, particularly well-managed economy that attracts a significant portion of the high-net-worth individuals in the region in addition to its own quite wealthy population. Our strong positions in both the agency and bank channels remained central to our capturing the growing opportunity in these two markets.

In Indonesia, as we mentioned earlier, we experienced the disruption in the first two months of the year due to reoccurrence of prolonged and severe flooding in Jakarta and the volcanic eruption in East Java, which hampered our agent's ability to move and to sell during this period. As a consequence, APE for the first quarter is flat over the same period last year.

It is worth noting that outside Jakarta and the disturbed areas, growth continued to be healthy throughout the period indicating that the fundamentals of that market are intact. Importantly, our business was already back to normal in March at the country level with the agency channel delivering growth of 19% year-over-year.

Our agency recruitment, retention, and activity indicators in Indonesia continue to remain robust. The low insurance penetration levels and the fast-growing middle class with rising wealth underpin the potential for long-term profitable growth in this market. Our execution, the quality of our execution, remains second to none with a world-class platform and one of the most professional and best-trained sales forces in the country. Therefore, we are confident of delivering continued growth from Indonesia in the months and years to come.

Moving into Thailand, first quarter APE sales from Thailand were up 2.7 times over last year to £25 million, mainly led by a strong performance from Thanachart which contributed 52% of the total APE. This performance very much validates last year's transaction with Thanachart. Our relationship with them is rapidly transforming the scale of the business in the second largest Southeast Asian economy. In less than a year, Thanachart has become our fourth largest bancassurance partner in Asia. Our strategy of targeting bancassurance in this market and establishing an exclusive strategic long-term relationship with the right local partner is starting to deliver positive return for shareholders.

Lastly, in China, we continue to see a rapid growth. The APE volumes up £0.46 led by continued growth across all channels. So, in summary, in Asia, our businesses have delivered strong performance on a local currency basis, which is the correct metric to measure their long-term value-creation potential.

Our scale positions in our chosen sweet-spot markets, the growing demand for savings and protection products from rapidly growing and wealthier but mostly uninsured middle class, and our ability to execute and adequately fulfill these needs positions us well to deliver sustainable long-term profitable growth from the region.

Moving on to the U.S. New business profit in the U.S. grew by 67%, well ahead of a 39% growth in sales volume, reflecting our value over volume focus. Overall, VA sales were $6.4 billion, 40% higher on year-over-year including Elite Access premiums of $1.1 billion which were 36% higher than the prior period. The continued success of Elite Access has helped us diversify further our product mix with nonguaranteed VA sales now accounting for 30% of our total VA sales, 2 percentage points higher than last year when it was 28%.

As we flagged at the full year results presentation, we are experiencing very favorable conditions to write variable annuity business, as a result of one, the positive impact of pricing and product initiatives taken in 2014 and before; and two, the tailwind from higher long-term interest rates.

Consequently, the current cohort of variable annuity with guarantees is one of the most profitable we have ever written with new business margins on this product being close to all-time highs. With that said, our philosophy is that the VA sales remains unchanged. We set our annual appetite taking into account the need to balance our book across businesses, current economic and market conditions, as well as the behavior of other competitors. Therefore, we do not expect to continue to write guaranteed VAs as a current run rate for the whole of this year. New business is important but so is the in-force as always.

Our in-force book continues to perform well with more than 99% of our VA book having been issued below current S&P levels. We remain well hedged into retail and policyholder behavior is tracking in line with our expectations. Our capital position in total remains strong, and we continue to focus on delivering earnings and cash by maintaining a disciplined approach to new business and rigorous management of our in-force book.

So, let's move now to the UK. In our UK life business, new business profit in the first quarter grew by 90% to £91 million with APE sales up 28% over the same period. In the first quarter, we successfully completed three bulk annuity transactions, which contributed £73 million of APE and £50 million of new business profit. We continued to be disciplined in this market, and we will only write this business if it meets our strict internal capital return parameters. In our retail business, new business profits fell by 15% mainly reflecting lower annuity and corporate pension sales, which was only partially offset by growth in bulk volumes. Retail annuity sales specifically fell 35% year-over-year, reflecting general market conditions and customers choosing to defer retirement.

The UK government announced, as you all know, significant changes to pensions and investments in the annual budget last month. Among these changes, the removal of compulsory annuitization by 2015 in particular, could lead to a significant reduction in consumer demand for annuities going forward. We expect the impact of this change to be entirely and completely manageable for our group as annuity new business contributed only between 3% and 4% of our group IFRS operating profits. However, these changes have also made ISAs and drawdown products more attractive for consumers providing them with an alternative option to an annuity.

We are, therefore, strengthening our product propositions. We are expanding our drawdown product range and we are extending our with-profits product proposition by offering these products under an ISA offer. And we are improving accessibility to our popular on and offshore bonds by launching these products on third-party platforms.

Over the last five years, our focus to improve strategic capital allocated to new business in the UK fell to a tenth of that spent in 2008. In 2013, we spent £29 million, 5% of the group's total new business spend, writing new business in the UK, compared to £293 million in 2008, equivalent to 37% of total group new business spend in that year. That is an indication of the rigor and rationality of our capital allocation process. We will remain focused in the UK, like in all our markets, on writing profitable and capitalization funds. We are committed to working with all stakeholders to ensure the best outcomes for our customers and to deliver stable earnings and cash to our shareholders.

So, moving now finally to asset management, M&G had a solid quarter, with net retail inflows of £1.3 billion, led by £1.6 billion inflows from Continental Europe, offsetting the outflows in the UK. The success of M&G diversification strategy has led to funds from Continental European clients growing by 35% year-over-year to £25.2 billion and accounting now for 37% of our overall retail funds under management. Overall, strong net inflows and also favorable market movements have increased M&G's external funds under management to a record £129 billion, representing 52% of the total funds under management at the end of the first quarter.

This spring, our rebranded Asian asset management business has had a promising start to the year. In the first quarter, third party inflows were up 21% on a local currency basis to £1.1 billion on the back of key institutional equity mandate wins. As a result, third-party funds under management at the end of the first quarter are up 10% year-over-year.

Moving along now to our balance sheet, we remained defensively positioned on the asset side of our balance sheet. At the end of March, our IGD surplus was reversed at £4.1 billion which is stated after deducting the 2013 interim dividend and the initial considerations for the new 15-year distribution agreement with Standard Chartered Bank. After all the items, this is equivalent to a cover of 240% which we'll consider entirely adequate.

So, let me now give you our outlook for the remainder of the year. We have made a positive start to 2014, delivering a strong and broad based underlying performance across our businesses. The global macroeconomic environment is the most supportive it has been for us over the last four or five years, providing a positive backdrop to our businesses in Asia, the U.S. and the UK.

In Asia, we continue to see good momentum in our sweet spot markets, and this is well supported by the long-term structural fundamentals of a rapidly growing and wealthier middle class who have a great need to protect and save for themselves and their families.

At the ground level, our businesses are focused on delivering a strong operational performance. We continue to invest in product innovation and in growing scale, highly trained and effective sales force, a key competitive advantage. We are executing our plans with financial discipline in order to create value for both our customers and our shareholders. We are well positioned to profitably capture the long-term structural opportunity in this region for many decades to come.

In the U.S., we are benefiting from a reputation as a company that is able to service the needs for other customers across market cycles. Our disciplined and productive cycle management approach of new business and conservative management of the in-force are delivering both cash and earnings to our shareholders.

In the UK, our focused approach has proven valuable to the group with the impact of recent changes, being entirely manageable in a group context. Our team is working hard to deliver products that adequately meets the needs of our customers in a changing landscape while also producing stable and strong returns for our shareholders.

Our asset management businesses continue to perform well and are attracting robust third-party inflows by delivering strong investment performance for our customers. Our strategy of allocating capital to pursuing our three key opportunities: one, for protection product in Asia; two, the tradition of U.S. baby-boomers into retirement; and, three, the savings and retirement needs of the ageing UK population will continue to deliver long-term sustainable shareholder value.

We look forward to rest of the year with confidence, and with this, we can now move to Q&A.

Q&A

Operator

Thank you. And our first question comes from the line of Farooq Hanif of Citigroup. Please go ahead. Your line is now open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi there, guys. Thanks very much for taking my question. Just two questions, actually. Firstly, given the budget changes, have you developed now further your thinking about some kind of Elite Access or VA proposition in the UK. That's question one.

Question two is you mentioned the kind of agent productivity, agent growth and case size as being key drivers of about 20% growth or double-digit growth. Could you somehow quantify what each of the contributions of those forces were? Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Farooq. Two important points. I mean on, on the UK budget changes, I think, there is a consensus of what's needed is some kind of product that allows people to drawdown. And in other countries, it's called the GMWB, minimum withdrawal basis, and to keep so much product to the market over the long term and to be able to pass on their savings to their heirs. So that's the kind of profile of what we need. Lot of people call that VA or something else. I think that's a market need, and Jackie has been working on all that, so I'll let her elaborate.

A - Jackie Hunt {BIO 16204866 <GO>}

(20:14) Farooq. So, you're absolutely right. I mean if you look at what's on the product development runway, at the moment, it is, in the first instance, ensuring that we have flexible drawdown. But, as you know, we have a cap drawdown product. It's currently available, but we'll expand that into flexible drawdown. We do think that's going to be important as customers come to April next year.

In terms of the more medium term, there is an opportunity, I think, to look at the variable annuity products that we write. In Jackson, we obviously have strong skills and competence there. Tidjane is absolutely right that the components that we'd be looking for is both an opportunity for people to underwrite, in part, some of their longevity risk but also to put a space in the upside as investment markets improve.

Now, existing ICA annuity does that. It is competitive against the flexible drawdown given some of the GAD changes, but we will look at all of those as potential options around replacing the annuity, the individual annuity market.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay?

Q - Farooq Hanif {BIO 4780978 <GO>}

Yeah. That's fine.

A - Tidjane Thiam {BIO 7518525 <GO>}

On your second question, I'll turn to Barry. On agent productivity, actually, I doubt if he'll quantify it for you but he can give you a sense of what's going on there in terms of productivity growth. Barry?

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

Well, your instincts are correct. I mean, we don't publish the very specific statistics on agency productivity by market. And we do talk a fair amount about scale, but let me give you some color, and I'll try to answer your questions as best I can.

In Hong Kong, as an example, which is a market where, normally, you don't see large increases in scale of an agency force. We've taken the agency force from 5,000 to over 7,000 agents in the course of a couple of years. And we've been doing that during a period when we've also seen increasing active writing – increasing productivity on a unit basis per agent, larger case sizes. Some of that is attributable to the mainland business, but some of that's attributable to what you would call indigenous business as well.

In the Philippines where we had, historically, been between 1,500 and 2,000 agents over the last couple of years, we've moved through 7,000 agents as well. And in spite of the fact that we're going to scale very rapidly during a period like that you would normally not see, productivity increases, we have continued to see productivity improvement there as well.

Indonesia, of course, you're probably familiar with. We've continued to grow the scale there, notwithstanding the complexity that Tidjane described about the sort of natural disasters of biblical proportions in the first quarter. We did continue with recruitment at pace. So, we continued to add the number of agents monthly that we've budgeted to add.

Singapore, not – we saw actually a little bit of increase in scale there. But more importantly, again, productivity improvement. So, you look at all of this, look at the 17%

growth rate across the region and you can attribute not half of the growth rate, but a material segment of the – material proportion of the growth rate, actually, the productivity improvement as opposed to just absolute increases in sales.

A - Tidjane Thiam {BIO 7518525 <GO>}

And if I may just add a few points to that. What makes it very complex and why we're reluctant to give it. Especially at the regional level, it stops being meaningful because you're missing some really – kind of small sales force highly productive in Singapore, as Barry has described. We have very nascent market where you have high turnover and low individual productivity. When you aggregate that at the Asia level, it's just numbers and it doesn't really mean anything. And the overall complexity, as Barry described, is that we have a virtual circle here.

The more people you recruit – so everything contributes. The more people you recruit, the more people you'll be able to recruit in the future, if you know what I mean. Because the faster you get experienced agents and the more experienced agents you have, the more people you can recruit and supervise and train. So, the model that Barry and his team run is a mix of all that because when you recruit more, they become senior faster, you can then recruit even more, then your opportunity per person goes up even more.

So, when you're trying to unpick all that, it's a bit artificial. The reality is, it's what Barry said, you need quality recruitment and you need to recruit a lot of people, and you need to train them well. And after that, the rest will follow. They'll sell more and more cases. They'll sell higher and higher case prices. And you'll have more and more higher earner proportion of active agents, but trying to micromanage that numbers, it won't help you.

Q - Farooq Hanif {BIO 4780978 <GO>}

Very full answers. Thanks very much.

A - Tidjane Thiam {BIO 7518525 <GO>}

Yes. Thanks, Farooq.

Operator

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

Q - Blair T. Stewart {BIO 4191309 <GO>}

Thanks very much indeed. I've got three questions. The first one for Mike. We've seen from some of the U.S. companies some adverse mortality trends. I just wondered if Jackson's seen that as well, and if so, what impact, if any, has it had on your business? I know your business mix in Jackson is different from some of the U.S. companies that have had these mortality adverse experiences, but I'd be interested to see if you've seen that as well.

Secondly, coming back to the UK, the UK market does seem to be moving to more of an asset management-type model if the annuity market is going to be affected. I just wonder without your own platform, how do you steer the customer assets onto M&G funds? And you seem to be suggesting that you're limiting yourself to a with-profit strategy on third-party platforms. Just interested in further comment around that.

And then thirdly, just for Barry, what's driving the mainland effect in Hong Kong? What proportion of your business is that now? And if possible, you talked about the March pickup in Indonesia. I just wondered how April's gone in Indonesia. Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Blair. Okay, fine. And thanks for spreading your questions around. We'll start with Mike.

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

Yeah. Blair, good morning. No, there's nothing particularly interesting in our mortality trends. Again, I didn't listen to all the investor calls of our competitors, but there's nothing that we're concerned about.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. And then we'll skip to - we'll go to Barry and come back to the platform question next. So, Barry, do you want to talk about the mainland effect in Hong Kong and why it's so strong, et cetera?

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

Yeah. Sure. Well, I'll kind of take your questions in reverse order. I mean you asked about April in Indonesia, and I think you're probably not surprised at all. I can tell you the weather was better there than it was in the first quarter. But in terms of giving you any guidance on business opportunities, those numbers aren't public. So - but things are going fine. In terms of the mainland effect, a lot of it is just increasingly wealthy middle class, upper-middle class and obviously affluent mainland Chinese who come to Hong Kong or - to buy a variety of products and services. They have legitimate standing here. Most of them have investments here; the wealthier ones sometimes on property as well.

They come to do just sort of retail shopping, and they are diversifying their financial-holdings by buying insurance products here. Most of it comes through agency, but we see some through bank as well. In fact, an increasing proportion through bank. They buy lots of power products because it's - and to the extent they want to invest in equity markets, they tend to do that domestically in the mainland. They come here to diversify by something that they perceive as being stable and sure. So, a lot of it is power products.

As for a percentage of it, about a third of our agency business comes through - comes from mainland customers. We - as you know, Blair, we've talked about this before, there's these particular procedures you have to follow to ensure that these are compliant sales and we go above and beyond and the regulator here often points to us as sort of the gold standard of compliance on those mainland sales. I would expect the trend to continue even with – talk about macro disruptions in China and things slowing down, and so forth. And there doesn't seem to be any end in sight to the slower mainland business.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Blair, I think your last question was on platforms in the UK. I mean, M&G already does a lot of enormous business on platforms, but I think Jackie was making a slightly different point about the weak profit. Jackie.

A - Jackie Hunt {BIO 16204866 <GO>}

I think that's absolutely right, Tidjane. So I think the point that's being made is really that we've got an incredibly well-regarded proposition in terms of prefund. At the moment, in terms of distribution, the only way you can really access prefunds is frankly through the intermediary channel. We see intermediary is moving, increasingly beyond to third-party platforms to make their models more efficient. And so, the point is not restraining us just for that but saying this is an opportunity frankly for us to actually make an existing well-performing product that customers really like and intermediaries like to recommended, more widely available, and should be seen as that, not a statement of any other intent.

It's worth highlighting as well that M&G does all of the asset management or M&G Eastspring announced some allocations to the U.S. business as well and for the life company. So, these are assets that are going into the asset management cost of business. We do run some open architecture up at Dublin, it's relatively small and our focus is really in the short term around this particular spread.

A - Tidjane Thiam {BIO 7518525 <GO>}

Because when we see the market, the recent demand for product, all our research confirms that and the sales with profit confirm that. So, there's no reason why that it shouldn't be available on platforms.

A - Blair T. Stewart {BIO 4191309 <GO>}

Very good. Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you, Blair.

Operator

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

Q - Andrew J. Crean {BIO 16513202 <GO>}

Hi. Good morning, everyone. I also have three questions. Firstly, going back on to the drawdown product. I just wanted to understand and most people are talking about a simple drawdown product. You're suggesting introducing a drawdown product with guarantees, I wanted to make – see whether that's clear.

Secondly, also in the UK, wonder whether you could talk about your BPA pipeline because your sales compared to the others have been quite lumpy. And then third question, your UK VIF think is about £5.1 billion. What proportion of that is for pre to relevant pre-2000 business? I think Aviva created a number of £200 million of its in-force was exposed to this potential FCA review.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Thank you, Andrew. So, we'll let Jackie – most of it is for you for the drawdown.

A - Jackie Hunt {BIO 16204866 <GO>}

Sure. Yeah. So, Andrew in terms of (32:08) first instance, you know, we will look to make available relatively simple for all our products. I think in the fullness of time and by that I mean from two, three years out, I can see more complex forms of that in the form of some sort of guaranteed-type drawdown, income guarantees associated with those, maybe akin to VA Elite Access coming on to the market. But I think that is really medium term, short term for us as well will be more to the simple end of the product side.

If you sit back and say what are the customer's looking for, I think they are looking for the elements of guarantee. And I think if you look at the kind of minimum end we see the success of the with-profits fund being around the fact that they get smooth returns, you can absolutely see that that will develop into some form of guaranteed returns over time. But that's not to say we don't need a simple, flexible drawdown as well.

BPA's pipeline, we continue to be very disciplined about how we allocate capital. We're not moving at all the return hurdles. And in terms of the pipeline itself, it remained strong. And so you look at what we transacted for the last quarter of last year, first quarter of this year, it should be seen in light of what we see as an attractive and strong pipeline at our financial hurdle rates. So, for us this is not a replacement product of any form.

We will participate in the market if it meets our financial criteria and our risk criteria. And we see the outlook as positive. It will be lumpy by its nature because we see this as a financial transaction in large parts. If the deals are there that are acceptable from our return perspectives, then we'll do it. I don't want to be driven into writing volumes for volumes' sake. You know, I think that's the wrong sort of mindset. So, you should expect to see us hopefully positive over the course of the year but lumpy again. I think...

Q - Andrew J. Crean {BIO 16513202 <GO>}

Yeah, there's no sense that you've reached your appetite to the year.

A - Tidjane Thiam {BIO 7518525 <GO>}

No.

A - Jackie Hunt {BIO 16204866 <GO>}

So, as long as it meets both our risk criteria in terms of the nature originally past the market we don't participate in. But if it meets that and it meets our financial returns, we're not capped out in any way. And on the VIF side, it's still not clear to us, frankly, what the FCA legacy review, what the scope is going to be. We've had no further contact from the FCA on this particular point.

So, I think if we're trying to second-guess what the nature of that review might be. There was more clarity through the form of the business plan. Obviously, a lot more generic in its statements and the way it's being positioned in some of the media speculation. So, I think this is something we're just going to have to see how it develops. We actually think we're very well positioned. So, if you look at the majority of our business, it's with profits on annuities.

On the with-profit side, there are a lot of existing government structures, as you'd be well aware. But the committee is making sure that there isn't cross subsidization in terms of that, so, I think we are...

A - Tidjane Thiam {BIO 7518525 <GO>}

And that compares to legacy. We will apply that to the legacy.

A - Jackie Hunt {BIO 16204866 <GO>}

That's right.

Q - Andrew J. Crean {BIO 16513202 <GO>}

Because I just suppose the question was more what proportion of the VIF is on pre-2000 business? Which doesn't require you to define anything. I mean, just a sense as to how much of your VIF actually comes in that area. I sort of thought maybe some £500 million or something.

A - Jackie Hunt {BIO 16204866 <GO>}

I wouldn't know off hand, Andrew. I mean we can have a look at it and come back to you but I'm not sure that it's...

A - Tidjane Thiam {BIO 7518525 <GO>}

We can come back to your plan again.

A - Jackie Hunt {BIO 16204866 <GO>}

Yeah.

A - Tidjane Thiam {BIO 7518525 <GO>}

We can come back to your plan. But anyway, it's not going to be a huge number. But we can give you a precise number.

Q - Andrew J. Crean {BIO 16513202 <GO>}

That will be fine. Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

And if I may, just an improvement on product and product mix. So it's really important the way we run the group and I've got all of my CEOs with me, so I can't say this is under their control. It's a very fair process. The hurdle for bulk is actually quite high. We put the hurdle almost at the level where we are indifferent. We're happy to write any product, if you wish. So, Jackie has to make a very high hurdle and, frankly if we meet that (36:18) got capital almost in infinite quantity. So we're very happy.

So the business you see is right, we're very happy with. That means it meets our hurdle comfortably, and it's very attractive as you saw in the NBP with these reviews this quarter. But deals like that are very hard to predict. They come and go. And as Jackie said, they'll be lumpy. We're developing the first quarter. We had three. Pipeline is good but we cannot predict the outcome of the negotiations.

Okay. Next question then?

Operator

Thank you. Our next question comes from the line of Oliver Steel of Deutsche Bank. Please go ahead. Your line is now open.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Good morning, everyone. Thank you for taking the call. I've got three questions. And first is back to Indonesia. I mean, you said outside Jakarta, you had seen growth and by implication you saw a fall in Jakarta. You also talked about a 19% increase in agency sales in March, but presumably that includes a bit of a catch-up. So, I'm just wondering if you can give us a bit more of a guide as to what do you think the sort of true effect of the natural disasters were to give us some sort of a guidance as to what we should be sort of thinking about over the rest of the year.

Secondly, a question for Michael, which is very rare, I know, but M&G, the European retail, inflows continue to come in. And I just wanted to know sort of what – sort of where you were in your sort of rollout of the European distribution and what we should be looking for in terms of sort of further rollout of that over the rest of the year or two years looking forwards? And then finally, do you happen to have the tax rates you're using for the new business profits?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. All right. Thank you, Oliver. On Indonesia, Barry, do you want to give more color?

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

Sure. So, much of the disruption due to national disasters, which is flooding, and it was - we continued to see growth outside of Jakarta where about half of our new business comes. But half the new business - the other half comes in Jakarta, and the flooding was quite severe. And to give you a sense of how complicated it was, we had every agency in the country does a Monday morning meeting where, essentially, every agent shows up and sort of gets their marching orders for the week, and we had weeks in Jakarta where we were getting 20% the normal turnout.

So, I mean this was quite a severe situation. Agents just simply could not move. So, I mean, that gives you a sense of what was happening. But as I said, the weather is better. The floods are over, and we did have a good March. You're probably right that there was some pent-up demand that came through in March, but in terms of giving you a steer on the future, from the bearer side, what I would tell you is that there is a little bit of macro headwind.

I mean, it's no surprise that the environment has been complicated for the last year with the volatility in equity markets and so forth. We wouldn't pretend that had no effect on the business. The presidential election is coming up in July. There's a little uncertainty around that. The precursors of that were last month's parliamentary elections where the candidate that's favored to win the presidential election, his party won but won by a slightly smaller margin that people anticipated that created a little uncertainty as to what the outcome of the presidential election might be, and how definitive that victory might be. So, these are all factors that can have an impact on consumer sentiment.

Having said all that, the great thing about our model, not just in Indonesia, but really throughout Asia is when you have the scale and quality of distribution that we have in the market. You have a significant ability to power through the turbulence, if you will, that's created by some of this noise in the system. You see the same thing candidly in Thailand, where this week, we've seen sort of an increase in the political drama there, with what happened to the prime minister and nine of her ministers. So, that he had to step down. Again, we have elections there in July. And yet the business continues to power on. So while all this disruption, be it natural or be it political, this will and it can have an impact. We shouldn't ignore that. When you have large-scale, high-quality distribution, it gives you an enormous advantage that some competitors just don't have.

A - Tidjane Thiam {BIO 7518525 <GO>}

I think that's a really very good point. I cannot say I'm pleased that Indonesia is flat, but in a way, I am, because it illustrates a point we've made many, many times. We are not just applying it on Indonesia. Our strategy is much more than that. And you'll see us growing at 20% NBP with Indonesia flat, and there was a perception developing that it was all about Indonesia when it's not.

We have enough headroom, we have enough leverage, Barry and his team, but we can absorb, absorb those issues. You've seen India in 2010, you've seen Korea, you've seen Japan, you've seen country after country - you've seen Malaysia, you've seen - country after country, have had difficulties and that's normal, but what you see is that the regional platforms performance remains good.

The question on tax for Nick?

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

Yes. Oliver, the tax rates that we've applied are 21% in the UK, 35% in the U.S. which is standard. And now beyond that, Asia averages – it will change quarter-by-quarter, it averages around 22%, 23%. But we've been helpful this time, on page 19 of the announcement, we've broken out the tax rates for the four largest businesses, Hong Kong, Indonesia, and Malaysia and Singapore which is the vast majority of the NBP.

A - Tidjane Thiam {BIO 7518525 <GO>}

Yeah. Okay. And you have a question for Michael, unfortunately, he's not on the call, so I'm going to do Michael. M&G Europe – look Oliver, we, okay, Europe has been very successful. I was in Paris two or three weeks ago. M&G France does an Investor Day and I was there presenting to kind of 600 people, family offices, people like that. M&G France has gone from £50 million of AUM to more than £5 billion. It's a great success story and it illustrates what we're doing in Europe.

It's really penetrating the market, working with specific segments. We worked with a lot of private banks, lot of family office, and people like that, and generating good flows. But you know asset management better than I do. It's not a business where you want to predict flows. Anything can happen, going forward. So, we're very pleased with the success we've had, but I don't think if Michael was on this call, he would give you any sense of expected volumes. Yeah.

Q - Oliver G. Steel {BIO 6068696 <GO>}

Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Good. All right. So, next question?

Operator

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

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

Good morning, gentlemen. Can you hear me?

A - Tidjane Thiam {BIO 7518525 <GO>}

Good morning, Greig. Yes, we can.

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

Final question actually on the Standard Chartered deal actually that – from the IGD. One can sort of work out the up-front cost. I assume you pre-funded for all three payments, I work it out to be about £800 million. What I was thinking about is, Standard Chartered – I think your up-front cost was £400 million, Standard Chartered is £800 million, but Standard Chartered is a much bigger deal.

Does that kind of assume Standard Chartered got better terms under the new deal? Does that mean that the margins you'll disclose in terms of EV margins on the new Standard Chartered deal, i.e., that there's been more variable cost, given that costs have been shifted to the variable side will be lower than the old Standard Chartered deal or any other bancassurance deals I'm interested in that? That's my first question.

The second one is just on bulk annuities. I was just trying to understand the free surplus generation and IFRS generation, how that might change as your mix shifts from individual to bulk annuities? And then just as a third question, you've mentioned that your bulk annuities, you're writing them ahead of very attractive hurdle rates. I assume they're above your hurdle rates because the margin, the EV margins have come down under the new deals. I was wondering if there's further margin pressure going to come as you may move say nearer the hurdle rate as competition increases? I don't know what – if you want, your thoughts on that.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Great. Thank you. A lot of questions here. On SCB, we, you know that we have not disclosed the amount, and we said we – there was no obligation to disclose it. It should give comfort, but it was affordable. The central point for us is that it's affordable. We have increased the dividend by 15% and taken into account the totality of the upfront payment transferred over three years in the IGD. And the IGD remains extremely strong. That's the point for us.

The other question you have is something we've answered. The terms of SCB have not changed. We made an upfront payment. All the other commercial terms remain the same. So, I've seen in your papers, you talked about higher commissions, and it's not the case. The terms of the deal are identical from the previous deal. Okay. I think that's prudent, so...

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

Well, then on Thanachart, of course, we bought a back book. So, as part of the consideration for the Thanachart deal, was the book that we were buying from.

A - Tidjane Thiam {BIO 7518525 <GO>}

And that book is contributing to our IFRS profit in Thailand from day one.

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

Yeah.

A - Tidjane Thiam {BIO 7518525 <GO>}

So, it's not comparable.

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

So, just to confirm that I can just assume a same sort of EV margins.

A - Tidjane Thiam {BIO 7518525 <GO>}

We told you that the teres were the same on the new SCB deal, yeah.

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

All right, cool. Thanks.

A - Tidjane Thiam {BIO 7518525 <GO>}

Bulks, FSG, free surplus generation, IFRS, Nic, do you want to take that?

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

Well, I mean, the only thing I would say to that is, and you only have to go back to disclosures we provide at the year-end on the monetization of the VIF. We have the tables and we also have a chart in the appendix in the slide. And what you will see is that in excess of sort of mid-90s, around 95% of all the free surplus that gets generated in the UK is from the in-force book. And that new business, by comparison, adds a very small slither.

So, the point really I would make there is that we make more money each year in terms of free surplus and potentially on IFRS as well just by focusing on the back book and managing it within assumptions, that we do through all the hard work that the team does in terms of adding another small cohort of business. So, really, the - and it's sustainable. Again, you look at - we analyze it out for the next 30 years. You'll see that the back book can sustain the free surplus generation of this business, broadly kind of levels that you've seen us report over the last three years for a long, long time.

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

How does it - and on IFRS, what's the sort of new business release on an IFRS basis, will that change?

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

We said that the annuities, the individual annuities, and of course this is on the conventional side that we wrote last year, contributed just over £100 million of IFRS profit. So, it's £100 million out of the £700 million that you've seen in UK which is literally, as Tidjane said earlier, 3% of the group's total.

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

And does bulk have the same sort of characteristics as individuals?

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

Well we've given the - and by the way, these are pre-tax numbers, the £100 million on IFRS. Every time we do a bulk deal, because we recognize that they're lumpy and we will only do them on good returns, we give you the contribution to IFRS, and we give you the contribution to new business profits so that it helps you with your modeling and so on and so forth and your understanding of the sources of earnings. Generally, the IFRS profile is not that dissimilar.

A - Tidjane Thiam {BIO 7518525 <GO>}

And I wasn't sure what your question on margin...?

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

On margin.

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

Can I just say, if I look at the bulk deals you did the previous two years, they were at a higher EV margin than this one. And so I just assumed both of them were above the hurdle rate, but the latter one - the former ones were in the higher. I was wondering as everyone jumps into the ballpark, whether we're going to see margin compression as you move down, let's say, to your hurdle rate as opposed to being above it. Yeah?

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

Greig, margin isn't the way we think about this when we write business, whether it's in bulks, individual annuities, U.S. It's return on capital. So, when we talk about hurdles that we have in place for return on capital, they are hurdles based on an ICA return on capital. And ICA will then bring in the specific risks that you're taking on a particular deal, be it the assets that you're backing the deal with or indeed the longevity that you are - the aspects of longevity that you're bringing in.

So, each deal is different. Sometimes it is backed by different types of assets, and certainly, the longevity that we underwrite through some of these deals because they're not buyouts. A number of them are buy-ins in a way. So, the risk-sharing characteristics are slightly different. So, all that is factored in the denominator, which is based on Pillar 2. And we look to beat the hurdle above that capital requirement. So, margin will - margin is false in the sense that it doesn't really capture the riskiness of each deal that you're taking onboard.

A - Tidjane Thiam {BIO 7518525 <GO>}

This is central to the way we manage the group. We completely ignore margins. It's just completely irrelevant in all our internal conversations. It just doesn't matter because between a deal that does a 17-year payback and a margin of X and a dividend of five-year payback with a margin of Y. That just gets completely lost. So, we do get return on capital and payback actually. That's also a very important consideration. So, the new bulk deals we've signed tend to have a short payback because – I'm going to quote Barry here – "you have to eat what you bake.

The problem with very long paybacks is that the generation of management that enters in those deals isn't there when they materialize. We like to keep people accountable, and that's why we like short paybacks. So, really, bulk deals are written on the basis of return on capital and payback and we just don't – the margin quality is (51:47).

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

Given that the VNB is the center of today's press release, I'm just wondering if this – I'm just trying to figure out if there's a risk of margin compression as more people go into bulks, so what you think about that? Yeah?

<: To us, it doesn't matter. First of all, again, annuities are a fixed set of our profit. We are not doing bulk to make up for the loss of annuity profit. We write business when the return on capital is above the cost of capital and by that, and when there is bulk having that total, we write it. When there's none, we don't. You've seen us in some quarters, writing no bulks. So, in the future, there is absolutely no change in our stance. We will write bulks when they're attractive and generate value. Moreover, it's competitive in the market or not, frankly, to us it's not very relevant. But we look at both individually. Where we can negotiate good terms, we will. And where we cannot, we won't write them.

And actually it's very important to our ability to negotiate good terms, but we are not under hook on volume because I don't how you negotiate your account policy if they know that you have to do X in both in this quarter. We're very happy to have zero and that's the only way actually we've fought value from those deals because you cannot always walk away. There's no pressure on the team to write and have paid the team a bonus some years when they wrote zero volume because I said you've done a good job. Okay? Your job is to write then creating deal and walk away from value-differing deals and if that means there were zero deal, we're very happy to bear the cost of the team and pay you a bonus. And when there are good deals, write them. So, we think that's the healthy way to approach the business.

Excellent. Thank you very much.

Operator

Thank you. Our next question comes from the line of Marcus Barnard of Oriel Securities. Please go ahead, your line is now open.

Q - Marcus W. Barnard {BIO 2103471 <GO>}

Yeah. Morning, gents.

A - Tidjane Thiam {BIO 7518525 <GO>}

Hi, Marcus.

Q - Marcus W. Barnard {BIO 2103471 <GO>}

Firstly, I know you've got about £3 billion of capital in your UK books, most of which is backing your annuity business. I mean, presumably if your annuity sales start to decline in the way I think most people expect, presumably we should expect to see some of that capital being released over time. And I realize it's quite – I don't suggest you quantify that. But I just wondered, do you envisage your leader there to meet some sort of future drawdown-type, guarantee-type business or do you think it will be available to group?

And as far as the links question on this is given the fantastic conditions you seem to be seeing in the moment in the U.S. with your returns on capital and opportunities, is there scopes of the group to allocate more capital to the U.S. and take advantage of its group structure?

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Well, on the – thank you, Marcus. On the reserve, I think frankly, it's too early to tell but at this stage, I would say, it's supposed to be above the in-force of the reserve we have on the £27 billion, £1.9 billion. So, I don't see a drastic change there given the new announcement, et cetera. So I think we may be visiting the future, but at this stage that would be my answer. And annuities were never very capital conservative in new business. If you remember that some years, this trend was even negative. So, anyway we...

Q - Marcus W. Barnard {BIO 2103471 <GO>}

I was thinking more of the...

A - Tidjane Thiam {BIO 7518525 <GO>}

Sorry?

Q - Marcus W. Barnard {BIO 2103471 <GO>}

I was thinking about the stock of capital rather than the commitment of new capital.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. I think the in-force has been low.

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

I mean, there is a risk capital that we held in relation to the annuities business, and I – it will be a different amount depending on the basis that you look at. I mean, the reality is the average liability duration of this book is, even in discounted terms, near or above 20 years.

So, I think, yeah, I mean I...

A - Tidjane Thiam {BIO 7518525 <GO>}

In the short term...

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

In the short term, there is nothing, yeah, there is nothing that will be transformational in terms of capital generation from that.

A - Tidjane Thiam {BIO 7518525 <GO>}

On the U.S. share point, the way we really – the way we do this is – if there is a capital constraint, it's not linked to returns, it's more – there's no capital constraint. We're trying to really diversify by vintage, as we've always explained. The two tax or if you wish many pressures on the volume, yes, we're going to write. One is really this will of being diversified by vintage or you're going to have disclosure over where we show you how much volume with retail at different levels of S&P. It's a very nice balance across that.

And the other one really just the balance sheet of the group. So it's not that we don't have enough capital to write VAs, it is that we have to be conscious of the total shape of the balance sheet of the group and wherever risks lie, and but it's another cap on the volume of VAs we're going to write. So, if I can give any indication – my view is you're likely to have more volume in H1 than in H2.

That's may be a bit of a prediction but, really, if you look at the current returns, how much we have already returned, it is very, very attractive. But Mike has already put a number of changes through end of April, which will have a – over the quarters a moderating impact on sales. And maybe, Mike, you can add on that.

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

Yeah, Tidjane, we did a commission reduction in April of 50 basis points. And we reduced or suspended some of the more popular death benefits that affects about 30% of our sales doesn't necessarily eliminate it obviously, but it certainly had some impact. But I think the other thing that – there's quite a few things driving a successful first half. 2013, talking to advisers in the last couple of months really demonstrated how the various product structures that Jackson and its competitors have worked.

If you think if you were a consumer, you saw a 32% to 33% equity market and basically flat return on bond funds. And so, the conversation with the advisers in these meetings now is – our products did what they expected it to do. The equity funds did what they're supposed to do. The bond funds were sort of flat to slightly negative. And some of these vol control funds, some of these other forced allocations to bonds, things that competitors did over this last part of the cycle really dampened some of the returns for the consumers.

And so, what you're getting is a sort of bifurcation and did you buy this for accumulation like a defined contribution plan or did you buy this for a guaranteed payout like a defined benefit plan and you're seeing a real split there in the new product offerings. And from the historic performance and the way the advisers view the back book. So, it's a – and on the volume control, then I guess the key thing is we wanted – we'd always like to get the volume before we control it at these margins. So, I think a strong first half will take us through the level of changes we did. We had some regulatory filings. We anticipated I think the quarter sales and I think Tidjane comments were accurate. We'll deal with the – these changes will have some impacts. And as you've seen in the last few years, guys, we have levers to pull to get the sales in at the level we would like as a group.

A - Tidjane Thiam {BIO 7518525 <GO>}

But again, we love that business. We think it good returns, short payback, capital efficient, highly cash generative. So, we're pleased that this is being validated now.

Q - Marcus W. Barnard {BIO 2103471 <GO>}

Okay. Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you.

Operator

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

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

Hi, guys. Thanks. Just a quick follow-up from the comments Mike made in the last question. So, you've obviously took advantage of the good margins this quarter, read a lot of the volume in the years, and should we think that margins now maybe stick to these levels or given the changes you just talked about putting through on commission level, et cetera, you could actually see margins improve in the second half but the volume will be the same which is dampened. And then second of all, on the lead access sales is 30% of your total sales, is that the more natural level now of the non-currency sales to think of or that will still increase? Thanks.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. Mike, do you want to take this? Can your margins go any higher or if the margin is good?

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

Margins are good. These are massive changes in margin that we're putting through but they're not hurting margins, let's put it that way. The EA market is expanding in terms of competitor products. So, I don't – we get this question a lot and I'm not trying to be evasive. What's the absolute level of scale? I had to laugh. An industry consultant dubs the category, the IOVA, the investment-only variable annuities. Okay. I am pretty sure everyone refers to them as EA clones if you talk to advisors or competitors. I think there're two things going on in this space. The product did extremely well last year, again, on performance. The alts did what they were supposed to do, low correlation equities, low correlation interest rates, good total returns. That's very helpful with a new product concept.

As we've told you before, over a third of the producers Jackson has in that product have never written a VA before, so you're getting into new relationships inside the firms. I think the broker-dealers genuinely appreciate that. Certainly, I wouldn't underestimate the dialogue right now with U.S. consumers on their income tax rates, federal state, and in some cases, city or local.

So, saving for retirement now on a tax-efficient manner is good. The things that concern me, competitors are trying to push this from a very good - some competitors, not all of them. But from a very good investment proposition, that's a great savings vehicle for retirement towards some form of guarantee, higher commission, sort of again back to the traditional VA space.

It's too early to tell if those sorts of moves have any impact in the overall market, but I think if you look at the mutual fund business, the asset management business in the space, retail, most of the fund company CEOs I talk to, think alts are a material part of their business plan going forward. I would agree with that, and the last ICI Research puts us, BlackRock and Fidelity as the three top alt brands in the asset management space. So, I think we've got a good spot in that, and we intend to defend it.

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

Okay. Thanks for the answer.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, Alan. All right. Thank you. And the next question?

Operator

Thank you. Our next question comes from the line of Andy Hughes of Exane BNP Paribas. Please go ahead. Your line is now open.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. A couple of questions if I could do. First one, the agents we're talking about at the moment. Are people still allocating money to the segregated accounts over the VA, and if so, why, given the currency rate is basically the same as the charges that you put through?

And the second question is on Hong Kong. Obviously, if you look at the Asian sales ex-Hong Kong and actually Thailand, it wouldn't look that great, but also the 35% jump in constant currency sales year-on-year in Hong Kong. Now, when I look at Hong Kong, it looks like you signed mainly with profit and protection business and hardly any unit-linked.

So, going back to the domestication and the capital budget you have in Hong Kong, perhaps you could comment on whether you have capacity to continue to grow at this rate within Hong Kong on the par side. And maybe if you could update on the mix across Asia of unit-linked protection with profit which you easily update on the – I couldn't find it in the press release. Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay, no problem. Thank you, Andy. Mike, the VA?

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

Yeah, Andy, you just – you're not seeing a materially different allocation in the first quarter than you are – than we showed you at year-end. You're seeing about 70% of funds, a little less than that on equities. The balance going to total return bond funds of a little bit with the fixed account.

I'm not sure with your point on the fees. I mean we had our average compliance – our clients' total performance on that portfolio last year was well north of 20%. So, I think relative to the fees that were paid faced a lot of value. And I think relative to our competitors, it was materially better performance on the total allocated funds they had with us regardless of the risk level they took. So, I'm extremely pleased with the quality of product to the fees charged. So, I hope that answers your question.

Q - Andy Hughes {BIO 15036395 <GO>}

I guess I'm trying to make a point, they probably should be allocating more to equities if I buy a product.

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

Andy, I totally agree. As you know, we've got that product priced at 82% allocation. I wish they'd have done more as retirees. We have the benefit corporately of – we don't have the – as you know, not much of – yeah, there is 99% of the book that's at equity level, so the guarantees aren't in the money. But from a retiree point of view, they need the performance. And the performance was there for them as they – the more they would've allocated equities, the more they would've enjoyed last year. And we certainly would've liked to have seen that benefit everybody, yourself included, assuming you own a share.

A - Tidjane Thiam {BIO 7518525 <GO>}

Okay. So on Hong Kong, I think just a quick comment because, I mean, you said without Hong Kong and Thailand, numbers would have been great. If you exclude at any point in time the factors growing part of the portfolio, I will agree with you, but numbers wouldn't be great. But that has been different countries at different points in time, so I really don't think it's fair to say that. But that said, you saw in the domestication that we allocated a proportion of capital to writing new business. If you remember at good times, the interest rates were like 0.6% in Hong Kong. So you can imagine that today, that volume of capital allows us to write much more businesses. That's the first comment.

Second one is that actually the mix changes (66:00) But of course, you're looking at the past returns, and you don't have the current mix. Barry can give you more color on that. And we've been making a big push on protection also, so Hong Kong may not be visible to you. Barry, do you want to stake that?

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

Sure. That's right, your last comment. I mean, we had been making a push for protection at Hong Kong, and it's been very successful. The percentage of sales in Hong Kong that are derived from links have gone down, and there's a couple of factors there. I mentioned earlier, Andy, that the mainland Chinese customers overwhelmingly prefer foreign, and why they do that is diversification and stability play versus investments they have in the mainland. So that drives part of it. And it's not just us, it's – if you look at the whole market link is down.

The other thing that drove that is the requirement that came in last year to dispose commissions on linked sales through the bank channel. And, in fact, there's no reason why that should actually suppress linked sales because we've been disposing the commission in another markets like Singapore on linked sales for a decade, and we continue to sell off of link.

But the reaction of some of the multinational banks, who, that compliance drama in the last 12 to 18 months and so forth, when they see a regulation like that come in, the instant response is, oh, well, there's a new regulatory requirement around that product, let's stop selling it and let's sell power instead. So, you've seen a shift in the bank channel, the power as well.

But I would expect, that in Hong Kong, specifically, to write itself, I mean, if you'd look across the region, we continue to sell a lot of linked in other markets. Indonesia continues to be virtually 100% linked. In Singapore, we continue to be the leading writer of linked and we gained share specifically with respect to linked. So, I'm still very confident in the future of linked as a product. It's just we're getting a little short-term movement in the mix.

Q - Andy Hughes {BIO 15036395 <GO>}

Yeah. And that would probably have a knock-on effect on IFRS profits?

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

Not necessarily. I mean, the upsurge in protection that you're seeing in Hong Kong has a positive impact. So, no, it doesn't necessarily mean this should be at the knock-on effect in profits, no.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay.

A - Tidjane Thiam {BIO 7518525 <GO>}

And this is a (68:26) basically. Barry and I have been talking about this for many years. How can we increase? I mean, his protection strategy has been very successful in the agency channel, and it's not a secret that there is for us an upside in the bank channel. And we did, for a long time, discussing how we can sell more protection in the bank channel. And he has targeted Hong Kong to do that this year, and I think he'll do it very successfully. And probably we're thinking behind it, as far as profit, because if you look at our signature in Hong Kong, it's clear that we could do more in IFRS profit. So, those sort of things he's been tapping.

Q - Andy Hughes {BIO 15036395 <GO>}

Great. Excellent.

A - Tidjane Thiam {BIO 7518525 <GO>}

So, we think for IFRS, we're on track for 2017.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thanks so much.

A - Tidjane Thiam {BIO 7518525 <GO>}

Thank you. Next question?

Operator

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

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

Thank you. Good afternoon, everybody. I have got two questions, please. First one for Jackie and maybe for Tidjane with your ABI hat on. I wonder whether you've got any thoughts about where we're going to end up with the retirement guidance process in the UK. That's the first question. And then the second, just on Standard Chartered, I wondered since you've re-signed the deal to the extent to which you've got new initiatives in markets that may be previously underpenetrated by Standard Chartered, and how you're planning on rolling out these initiatives over the coming months when we might start seeing it in sales? Thank you.

A - Operator

Okay. Thank you. Thank you, Jon. I'll let Jackie answer this one on guidance and then where we're headed.

A - Jackie Hunt {BIO 16204866 <GO>}

Hi, Jon. So, in terms of the processes still, I think it's becoming increasingly clear the difference between guidance as it was sort of presented at the budget time versus advice. It's clearly not going to be full-scale advice that's being discussed. I think it's about the option of the conversation. It's not even face-to-face anymore. I did join a dinner actually with many of the UK life CFOs and the FCA last night where we talked a lot about how do we drive this forward. How do we get to a position where people reach the right sort of guidance, and what is the fundamental of the guidance that this process is going to give and individually unconstructed advice process.

I think it's early to say. It can range anywhere from basic financial education. I actually think a lot of financial education tools are out there. They say these are factors you need to consider, your tax position, your need for income, your need for capital growth, all those sorts of things through to something that's a little bit sort of net debt financial education plus. So, I think it remains actually for the industry, alongside the regulators, to help to find the way forward. It makes sense where the conservation is at. Tidjane, I don't think if you have anything more from your ABI?

A - Tidjane Thiam {BIO 7518525 <GO>}

No, I agree completely. We already consider that people can get to the right decision, provided they're given the advice and people talk about VAs. VAs are very advise-intensive. It's not the secret in the market, people will play something like 7% commission because it's a hard sale. It's a complex sale, when you have to explain a lot of things to people. So the conundrum here is really, how do you, one, make it happen, and how do you fund it? The kind of RDR) context. So, I don't think anybody has answered that yet. So, I think it's certainly a vital question, because at the end of the day, we want people to make the right decision.

We know there are people here are making one of the most important financial decisions in their life. So, it's difficult but it's a good day of going home on that. So, I hope that we get to a sensible answer. New initiatives; discussing that with Barry recently. Barry, on SCB, do you want to give an update of what are sort of the new things that you can do there?

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

Yeah, absolutely. I mean, I actually met with the senior people at SCB already this week. We were together in Hong Kong and we talked about some of this. The – I mean, there are new initiatives underway to launch new products or to the previous questions well from Andy. We're launching new life products in Hong Kong. We got initiatives going on in Singapore around new products as well. You recall that the relationship is also – in addition to extending some of the longstanding successful relationships like Hong Kong and Singapore.

We're extending into places where we historically did not have an exclusive relationship like Indonesia. So, we are weeks or months away from the launch of some new activities in places like Indonesia, in India where we've historically not had a relationship at all and the teams are working aggressively to get that up and running in the next couple of months. So, there's actually quite a lot going on. And I think you'll see measurable impact during the course of 2014.

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

Thank you.

A - Tidjane Thiam {BIO 7518525 <GO>}

That's more than I would have said, Barry. I'm glad to hear that. Okay. Shall we take one more question if there's any appetite?

Operator

We have no further questions at this time. So if I could turn the call to you, Mr. Thiam.

A - Tidjane Thiam {BIO 7518525 <GO>}

All right. Fantastic. Thank you, Jerry. So, thank you, all, for your patience, your attendance, your questions. It was a really good discussion. We believe our strategy is clear. It's unchanged and it's working well and we said more of the same.

In Asia, our leading product and distribution platform, this is well positioned to capitalize on the long-term structural trends, which will drive profitable growth in the region for many years to come. The diversity, scale and resilience of our platform is core for our ability to deliver consistent and reliable financial performance.

In the U.S. and in the UK, we are focusing on generating cash and earnings for our shareholders and our asset model businesses are focused on delivering good performance and good returns for our customers. So, we're making good progress towards our 2017 objectives. And we will continue to update you on the same during our half-year results presentation in the summer hopefully.

The diversity of our group is a source of strength and enables us to deliver a resilient and sustainable performance, creating long-term shareholder value. The developments of this first quarter are good evidence of our strength. Our businesses are in good shape. We have a strong balance sheet. We're executing with discipline, focused on three clear opportunities we have in Asia, in the U.S. and in the UK, across the three regions. So, thank you for your attention again, and have a good day.

Operator

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