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Bloomberg Transcript

Prudential PLC Investor Conference

Company Participants

- Anne Helen Richards, Executive Director, Deputy Chief Executive of M&G Prudential and Chief Executive of M&G
- Barry Lee Stowe, Executive Director and Chairman & CEO of North American Business Unit
- Chad Myers, Unknown
- Clare Bousfield, Unknown
- Grant Robert Fairlie Speirs, Group Finance Director and Director
- Guy Robert Strapp, Chairman of the Board and Director
- John William Foley, Executive Director and Chief Executive of M&G Prudential
- Lilian Ng, Chairman
- Mark FitzPatrick, CFO & Executive Director
- Michael Andrew Wells, Group Chief Executive & Executive Director
- Miguel Ortiz, Unknown
- Nicolaos Andreas Nicandrou, Executive Director & Chief Executive of Prudential Corporation Asia
- Paul Chadwick Myers, CFO and EVP
- Unidentified Speaker, Unknown

Other Participants

- Abid Hussain, Research Analyst
- Andrew Hughes, Insurance Analyst
- Andrew John Crean, Managing Partner, Insurance
- Arjan van Veen, Executive Director and Equity Research Analyst of Insurance
- Blair Thomson Stewart, Head of the UK and European Insurance
- Gordon Aitken, Analyst
- Greig N. Paterson, MD, SVP and U.K. Analyst
- Jonathan Michael Hocking, MD
- Nick Holmes, Equity Analyst
- Oliver George Nigel Steel, MD
- Unidentified Participant, Analyst

Presentation

Michael Andrew Wells {BIO 4211236 <GO>}

Well. Good morning, everybody. Welcome. Thank you for coming out and giving us the better part of the day to what we think will be an interesting update on the success of the group, the -- an update on the quarter, some operational, I think, initiatives that I think you'll find are what you'd expect out of the quality of the team. And then a good view of some of our team members. Some of them new to you, some of them well known in new roles. So I think it should be an interesting and productive day. And with your indulgence, let's get right into it.

We're in an interesting spot as a group. I think the -- as the industry looks for growth, we are focused on where our best opportunities are, what -- the options we have on growth and distribution, on products and channels and markets. And a lot of what you're going to hear today is about the discipline that we're using and the -- our lens on when we accelerate in a market, when we don't; how we allocate capital, when we won't, when we pull back; which markets we think have unique characteristics right now.

But we're going to -- we start the morning and start the quarter, as always. And I think, in an enviable position. We are in the top investment markets, we think, for our products and services in the world. In almost all of them, we have market-leading positions. We have great teams on the ground with local execution. And I think we're disciplined and can demonstrate that to you on how we allocate capital and resources to them to produce the highest return and value for shareholders.

So when we look at our markets, the attributes we've told you time and again that we think are key are structural drivers. In Asia, that can be the infancy of a market. In the U.S., it can be changes in the regulatory policy around the baby boomers options. In the U.K., quite similar nature, a large asset management market where we don't see natural players emerging to solve what's a very large consumer demand in the savings gap.

So we're going to walk you through a lot of those today. But I think the -- where I want to start the morning is the strategy is working. I think the Third Quarter results, which I'm sure you've all seen by now, demonstrate it continues to do so. And we're going to give you a little more granular look at all those as we go through the day.

So one of the questions, I think it's fair to ask the team is, are we reasonable and/or good -- hopefully good custodians of the capital that's invested in the company that you've entrusted us with? And I think there's a couple ways you can measure that. One is what we choose to do, where we accelerate, where we tend to concentrate our capabilities, both in terms of fiscal capital and also our human capital. Then second, are we disciplined enough to back off of markets, products or channels that we think don't have currently the same opportunities they did before?

So it's kind of a unique, I think, set of options in our business. The things we moved away from, in some ways, would be enviable year-over-year growth in terms of earnings impact for most of our competitors. And that takes a couple of things. It takes discipline. It takes the support of your shareholders, obviously. And it takes options that produce growth elsewhere that allow you that sort of luxury. And I think, finally, it takes other markets that you can grow in that you don't feel obligated to try and make a market or a channel or a product line look better than it is because your option set is limited.

So on the left is a series of things we've stopped doing as well as things we've accelerated doing. And on the right is the outcome of that. If we're doing that correctly, it should produce more of what we see as quality earnings. How do we define quality? Fee and high cash return, okay? Without defending or attacking the intricacies of insurance accounting, cash is a pretty good metric regardless of your background. And how business is doing and paybacks of that cash in reasonable time frames is a good measurement on the velocity of the capital. And that's clearly one of our strongest lenses. Okay? It doesn't mean we don't like long-term cash flows. But again, it's cash-centric. So fee-based, right. And insurance or technical revenue are the 2 that we strive for. That's how we measure quality.

On top of that, you're allocating it into a portfolio model, okay? And the portfolio model gives us diversification from local event, local political, local regulatory risk. That can be in the U.K., that can be in the U.S., that can be in Asia. At our group's size and our footprint, probably our most significant risk is macro policy. It's -- I don't think it's interest rates. I don't think it's equities. I don't think it's irrational competitors. We can adjust incrementally to those sorts of things and hedge and/or plan accordingly. But we can, at our -- with large franchises, large businesses in these markets, we're affected by local political decisions, local regulatory decisions, local capital model decisions, et cetera. So we need the flexibility to adjust that capital and effort to go somewhere else for a while or to back down or to alter our product set, or -- and I think we've demonstrated that. So the quality of earnings mix comes from, first, the decisions of where you will and won't allocate capital, what business lines you'll stay committed to and not; second, what you're targeting, okay, what outcomes do you think are -- what's your definition of good; and then, finally, the option set you have from the footprint and can you -- does that translate into a sustainable business model? So as -- again, as you saw with the quarter results, not every market goes up at the same pace all the time. I don't think anybody expects them to. But the overall effect is excellent. And that comes to -- there's a lot of work behind that. But it does -- it is -- I think the value of our model makes it very unique.

Shown you this slide before. So the structural demands, we don't have a market right now where there aren't multiple J Curves or compounding J Curves. So in Asia, well rehearsed. The infancy of the industry, both in health and protection and the wealth side, the emerging middle class, the demographic, just the growing strengths per economy, the structural, the government programs that do or don't support savings or retirement or health, all those things give us tailwinds, okay. And they compound.

In the U.S., we've talked about the baby boomers. I joke, one year, we can almost name them all for you. There's a -- we're in the midst of that wave. We're not even anywhere close to the t-value of it. But we compound a very successful business model that's aimed at that space with new advisers, new channels and targeting new asset pools. So again, with capabilities I think we've proven to you over time.

And in the U.K., we take, again, the second largest asset management market in the world, a material savings gap with retail consumers, right? And we take 2 very trusted brands and lever some of the things that they're both capable of and get a better outcome, I think you'll see today, than if -- when they approach the market individually. So again, these give us multiple J Curves that are on top of each other and gives us a fairly unique, I think, combination of options that's -- it's ours to execute on.

Value over volume. So I said there's market we'll walk away from. There's product lines we'll walk away from. There's distribution we'll walk away from. But it doesn't mean we're not concentrating on other markets. And the key here is, again, we have enough places, enough businesses where we can put that capital, right, organic growth to get the value we want. But if we're going to get consistent growth for you, on the right-hand side, if we get value over volume, leveraging our capabilities effectively as a group and that efficient use of capital, you should see some consistency to metrics. And I know I say this in a lot of meetings. But the way to mess this up is make mistakes on any of the attributes on the left: large blocks of nonprofitable business, talk yourself into mispriced product that's strategic, generally means loses money, right? Those sorts of things in our business, you put that on the books and you have that drag for a very, very long time in your business model.

So if we get the left-hand side right, we get not only great returns on an absolute basis on the right for you. But we also get the consistency. So it's a key, key element to the future value of the company, the future value of the cash flows, the optionality we leave as a management team to our predecessors. Okay?

How do you get the strength of the franchise to a high level of recurring revenue on the right markets. Well it's staying disciplined. It's looking. And we're getting better at this -- at the second one, lever our strengths as a group. That's a relatively new element of our DNA. We've done it regionally, now we're doing it more globally. We're getting better at negotiating relationships globally. We're getting better at dealing with vendors at a -- are the full size of the PRU versus letting them approach a single business unit on pricing. We're getting better at sharing first with ourselves before we go external. Because often, best practice in the industry is already somewhere inside this group. And people are getting better and better at sharing with their colleagues what's working. And again, you see that across regions. You see that across business lines. And it's producing a much more levered outcome. And it should. And as a shareholder, you should expect it to demonstrate attributes to scale.

At our size. And our very meaningful size, we can invest in things that most firms can't. There's only a handful of firms in the insurance industry that have the tech investment we do, that have the people investment we do, that have the capital to invest that we do. And we take that very seriously. So all of those elements produce not only the good returns. But again, the consistent returns we think are key.

Strategic priorities. Again, I'm going to let the teams get into the granular piece of this. But there's key elements to these for us. And I think they're important to just spend a minute or 2 on.

Asia, it's in some ways, it's ours to lose. And I just say that to put a little pressure on the team. There's a -- I spent a lot of time there. I was just in -- I was with our Singapore team last week. And Lilian and Nic and Raghu and the team and everybody (in wealth) there. There's a couple of things you need to know. One is, at our size there, there's very few markets, I think as a lot of you know, that we don't have a material presence. And that gives us a scale -- a unique position to lever. Our agency models, our bancassurance, our operational platforms, our regulatory relationships, just the sheer talent, the ability to recruit talent when you meet these folks that have just -- one of the meetings I had, I met a folk -- a bunch of folks that have just joined us, our young, high potentials. And these folks, anybody in Singapore would love to hire. And we can get them.

Then the other piece, I think, that might surprise you is how fast we can move these business models, okay? And I think that's one of the pieces that we get -- that's been underestimated at times. I hear a variety of challenges to how we access consumers in markets. We see directionally having the -- this huge agency force, this trusted agency force, with consumers an incredible asset as we see the thousands of bank branches we have, okay? It's ours to lever. It's ours to get further penetration with their household. It's ours to give them better tools. It's our responsibility to make sure that they have enough products and services to deal with an entry-level client and a client who's maturing in their financial sophistication.

And as you all know, we start with a very high number of consumers and a relatively low relationship per household. And the -- our distribution folks are very focused on increasing those numbers. But even in a market like Singapore where we have about 1 in 3 households, I would say now, who owns our product. Certainly, when you're in Singapore, it feels like more than that when you have a shirt on with Prudential on it. Lots of people talk to you. It -- they can easily go up from there. A bank CEO standing here wouldn't think 2.2 relationships per households particularly a high number of product relationships and nor do the consumers, when you talk to them. So the upside we have in the market comes from this fact we have the scale and then the establishment of trust, relationships, good execution historically in the markets. And there's a consumer value that we have that, again, is ours to defend. They don't know our credit rating, okay? What they know is we've done everything we said for them. We're getting faster and better at anythings, from claims payment to the accuracy of the presentation that was made or the way we approach them on their -- the last idea that the adviser had to improve their -- sort of the risk-off to derisk their personal situation. And you feel it on the ground. And you feel it on the ground in China. You -- I mean, there's a lot of markets, we're going to give you a couple examples today, that I think might surprise you in how we execute in region. And going back to an earlier slide. And now those best ideas are quickly moving business unit to business unit. Okay?

So health and protection. This is a market that we've got a great leading position in and we need to get better. There's a lot of upside here for us. You'll see a lot of resources in terms of talent. New capabilities coming online here because it's something we're already doing well. And it's -- the demand is tremendous. And we think we're a natural owner of that market. Then for the Eastspring team, the wealth market is clearly emerging. And we need to meet the clients, however they want those assets to come out of those heavy cash positions and into equities and into investment solutions. And there's a variety of ways we can do that. We'll give you some -- show you a few new ideas today.

On the U.S., well rehearsed. So the -- it's clearly emerging into sort of a 2-product in the retirement section we're in market: the traditional variable annuity distribution and then the post-DOL fee-based platforms. We go into that with the capabilities, the market-leading products, right? Again, reputation, best outcome for consumers, absolutely key when you go to a best-product test from the federal government, okay? And the capability, the scalability to do that. Again, within our own risk appetites. The proactive risk management, we keep looking at the risks in the U.S. business. We've had a number of competitors try and find the bottom of the evaluation on businesses they -- that we stood up here precrisis and told you we wouldn't write, okay? And there's no question that it's -- the onus is on us to demonstrate our ability to manage risk consistently and differently than some of the players in that market have. We have. It's produced a very different outcome for our shareholder, very different business, very different cash flow signatures, returns on equity and risk-adjusted returns, okay?

We don't have an unlimited risk appetite in the U.S., as we've said before. From an M&A point of view, we're still looking at bolt-ons. We still haven't seen any that fit our pricing parameters. We don't feel any pressure to do one, okay? We know how to manage sales and our risk appetite on our product exposure. We've proven that to you year after year. We have a very, very different business in the U.S. than our competitors. And it's our responsibility to continue to show that to the retail consumer, the distributors and to you.

And in the U.K., we -- I was -- we were -- I was kidding the team yesterday when we're talking about some of their presentation. It's been a long time since we've shown you what we can do in the U.K.. And I'm going to keep my comments to a minimum here. These are 2 very good businesses making a lot of progress on the capabilities, on the synergies, on the things they can do together that they couldn't have done alone. And I think it's -- I'm going to let them go through the key of it. The one issue I did want to hit is capital-light. So a lot of questions, a lot of interest in our decisions. Going back again to an earlier slide, the first, step back from the retail annuity business in (books), okay? Second, the management actions you've seen us do to derisk that and reduce the capital exposure of that business. It's anything from reinsurance to some of the portfolio movements you've seen so far. And now as we said before, we are looking at external options. We are in that process. We're not going to give you a lot of detail on that process because we're not trying to bias it towards somebody on the other side of the table, to be clear. So we won't -- we want to keep our cards close to our vest until we have what is a definitive end to part -- to a phase of that.

But I want to remind you of a couple of things. One, it is a liability transfer, not an asset sale, okay? So it is -- it reduces -- it changes multiple metrics as we transfer that to -- if we choose to do that to a counterparty. The early stuff will unwind some efficiencies in covariance benefits, the latter tranches. The cash released on the capital side, on the reserve side, is quite linear from there, right? And our view of what we would do with the capital, where the proceeds go, is -- are no different than any other capital we have in the group. It's, first, what are our organic opportunities? And again, at this point, we don't have a business that isn't -- Africa being our newest, probably not quite true. But isn't selffunding from an organic capital point of view. We don't have a unique demand in one part of the world for capital from another. So our organic capital, we shouldn't need any unique proceeds for organic growth. But if there's something opportunistic that's in our platform or our model, we would look at that. We would opportunistically look at M&A, okay? That doesn't mean -- it's certainly not necessary to grow this firm and isn't as strategic objective and isn't in our business plans, to be clear. But if we saw something, as you've seen us do in the past, that we thought was unique in distribution or product or market, we would certainly look at that. Then, most importantly, we're the custodians of the shareholders' capital. It's the shareholders' money. So excess capital goes back to the shareholders. And we're fairly agnostic in how we would do that, okay? We'd look at it at the time.

So I don't want to get into. And I -- and the U.K. team won't, either. You can try and ask. But I don't think you'll get the same answer. The -- we are in process -- the process now of looking at the market. We don't -- until you're through that, we don't know what pricing would look like with counterparties. It is not a homogenous book. I mean, some of the simplistic stuff that some folks externally have put out, it's -- there's a variety of books in there. There's products we've written. We understand the value of it. We understand the value of assumptions. We know the -- we know how people price this. We've bought them. We've acquired those blocks. We certainly know how this process works. So in time frames, it's months to negotiate transactions. And it's quarters to get through the Part VIIs, okay? So just to control everybody's expectations. And again, we're live in that now.

Favorite slide. I think this is the -- it's the consistency of key metrics that says we are -- we're doing what we should do with the capital and the resources and the talent and the market footprint we have. I still think this is the single best lens to measure the performance of the team. And it continues to look as it should.

Then the day. We're going to get a bit granular on some of the operational initiatives, some of the things we are doing, some of the things we think might be outside of your travel or normal scope of your day's resources to look at. So anything from some of the quarterly updates, the metrics that we may or not typically issue publicly. But just give you a little different feel, some of the key, the -- sort of the order of battle in the U.S. firms are going to succeed post-DOL, what that has to feel like, what that has to look like. So you can tell where we are or, with the same lens, you could tell our competitors' likelihood of capturing those new markets. Then, what do we expect out of the U.K.? What should that feel like? How can you tell that's progressing in a level that meets your expectations? So I think the -- this has got a little more operational focus than some of our investor conferences before. But given the strategy is intact, it's working, okay, it's producing very good results, drilling down a little bit, we think, is appropriate.

What's the day going to look like? Mark FitzPatrick's going to come up and give you a financial overview next; and then we'll have the team from Asia; a break; the U.K.; a break; and then the U.S.; and then we'll all be up here for Q&A. And again, we're not going to leave without your questions answered and anything that you're concerned unaddressed.

So I'm going to end my comments there. I'll be back at the Q&A piece. And obviously, talk to you at the breaks.

And with that, I'd like to again thank you for joining us and ask Mark FitzPatrick to come up and walk us through the financials.

Mark FitzPatrick {BIO 20178326 <GO>}

Thank you, Mike. Good morning to you all. It's a real pleasure to be here. And thank you for taking the time and choosing to be with us this morning. In my presentation today, I will cover 2 main topics. First, a brief overview of business performance in the nine months to 30 of September this year; and secondly, I will provide some thoughts around how we look at capital and the characteristics of our approach and execution that differentiate Prudential from the peer group.

So on to the first topic, the Q3 year-to-date financial highlights. We continue to make good progress through 2017. New business metrics in our life operations are moving forward. And in asset management, we are seeing the benefit of both sizable net inflows and the appreciation in investment markets. New business profit increased by 17% in the first nine months at constant exchange rates, driven roughly equally by volume growth and the positive impact of higher period-end interest rates. Favorable currency movements add a further 9 points of growth. The performance remains broad-based, with new business profit up by 15% or more in each of our 3 key geographies.

Looking forward to full year new business profit growth rates, please remember that because we use an active basis for rate assumptions, these economic tailwinds will largely unwind at the year-end, given the post-Trump rise in yields occurred mainly in the Fourth Quarter last year.

In asset management, external net inflows are strongly positive at GBP 12.8 billion with contributions across the board. Overall, external assets under management have increased by 13% since the start of the year, with roughly half the uplift coming from net flows and half from investment returns. The group's financial progress continues to be underpinned by a strong and resilient capital position.

In Asia, new business has continued to demonstrate the strength of our regional portfolio with growth that is broad-based, double-digit and high quality. As a reminder of the scale of our Asian businesses, they contribute 54% of our group APE and 65% of group new business profits year-to-date. Viewed on a country basis, Asia has delivered growth in new business profit across 9 out of 11 countries, with 7 growing double digits or more. This includes Hong Kong, where we are seeing the benefit of our focus on protection as we continue to reposition towards a richer mix of sales. Outside Hong Kong, APE sales were up 24% overall, highlighting the performance across the region.

Likewise, through a distribution lens, Asian growth in new business profit has seen double-digit contributions from both agency and bancassurance, with improvements in productivity and activation levels in agency and renewed momentum in our bancassurance partnerships.

Finally, on a product view, we are growing in the areas where we are strongest. Sales from health and protection are 16% higher overall. And unit-linked business is also up strongly by 27%, reflecting improved market sentiment.

So over the year-to-date, the characteristics of our life business in Asia continue to play out. That is diversified, recurring new business of high quality that is driving compounding growth. In asset management, net inflows from external retail and institutional clients combined with positive market performance mean that Eastspring's external funds under management are up 17% year-to-date.

In the U.S., Jackson continues to outperform the industry. Separate account assets, the main driver of the fee-based revenues, are up 13% since the start of the year mainly due to asset appreciation. Importantly, net flows remain strongly positive. And based on the latest market statistics, Jackson continues to capture close to all of the industry's net inflows.

Looking further ahead, Jackson's recent launch of products structured to suit the fee-based adviser market positions it well for new, longer-term growth opportunities in this large, untapped asset pool. Our U.S. team continues to break into new adviser relationships, which bodes well for the future.

M&G Prudential's new business flows have remained strongly positive through the period in both life and asset management operations. In U.K. life, new business levels are benefiting from continued demand for PruFunds Risk Managed product range, particularly through the flexible structure of our popular retirement account. You will be aware from recent media articles that we continue to work with the FCA while they determine the appropriate approach for assessing the cost of redress for nonadvised annuity sales falling within the thematic review. We hope to be able to update you on this process when we report our full year results in March.

In asset management, the improvement in investment performance continues to drive positive net flows in both the institutional business and the wholesale and direct channels, where new business is at record levels for the 9-month period. With market appreciation also having a favorable impact, average external assets for the first nine months are 13% higher in asset management compared to 2016.

The merger and transformation of our life and asset management businesses is ongoing. And we are pleased with the progress we are making at this stage. John's team will provide you with an update on this shortly. In relation to the reporting disclosure of the full year, the costs associated with this will be taken in restructuring costs within operating profit.

So in summary, across all the group, new business flows are adding to our sizable stock, our earning drivers are moving forward. And the focus on quality is intact.

Now moving on to my second topic, that of our approach to capital management. Our approach is not new and is not changing. And this section describes the approach and practice of what has been in place for many years. The consistent application of this approach across the group is what underpins our progress on many different earnings and cash measures and is the basis for our continuing efforts to enhance the financial profile of the business.

So starting at the top of the diagram on the left-hand side of the slide and working around clockwise. We invest our capital in new business opportunities that are of sufficient scale and exhibit the right characteristics in terms of quality, return and payback, which, together with managing it to good effect while the business is in-force, should generate compounding effects and compounding levels of organic capital generation. This, in turn, provides the group with greater financial and strategic optionality and resilience. It is the strength and quality of this high-velocity capital model that sets Prudential apart. It provides a key source of strength and resilience, underpins the growth in the dividend, it drives flexibility to adapt to challenge and opportunity without compromising overall delivery.

Now first and foremost, we operate an organic growth model. The scale of the structural demand in our key geographies and chosen market segments means we are not short of options about where to invest our capital. The success of our growth and the speed at which we can redeploy our capital is highly aligned to the type of business we write. That's why we are so meticulous in prioritizing value over volume and focusing on business that has a capital-light signature. This not only reduces the upfront capital burden but also means our investment is repaid more quickly, enabling capital to be recycled in new organic opportunities.

Now that's not to say that we won't consider countercyclical or inorganic opportunities and strategic investments as well. In more recent years, this includes the addition of significant new reach in our bancassurance partnerships across multiple markets in Asia. Deals like these have the ability to generate many years of customer revenues. But they, too, are assessed by comparison to the quality and sustainability of our organic growth options.

Asia's share of the group's new business investment is material and growing, given its relative capital efficiency, strength of returns and scale of the opportunities available. As a result, Asia now accounts for 2/3 of group new business profit and is likely to continue to grow in proportion over time following these capital allocation principles.

My next slide shows what I think is truly distinctive about Prudential. That is the speed at which new business adds to the existing stock of future cash generation. Now the chart shows the value of the undiscounted future cash flows that are expected to merge from the in-force portfolio into free surplus over the next 40 years. And how this has moved between year-ends 2011 and 2016.

So there are 3 main points I wish to draw to your attention. First, in the five years since the beginning of 2012, the group has added GBP 30.8 billion of undiscounted future expected cash flows through the new business it has written. Second, it is clear from the chart how Asia underpins the group's outlook for cash generation and how it is Asia's new business growth that has been the primary driver of the increase in stock of future cash flows, accounting for over 60% of the total.

And third, that the additions from the new business are multiples of the unwind from the in-force portfolio. So adding more to the stock than is coming out repeated year after year creates a powerful growth dynamic that drives the outlook. The strength of this compounding effect is that, in just five years, the group has almost doubled the value of these expected cash flows from the in-force portfolio. However, the success of any capital management strategy rests not only on disciplined allocation of capital but also the ability to manage and retain the business. It is only through effective management of our in-force portfolio that we can have confidence that returns will be delivered to the level expected and that payback is achieved within the anticipated time line. It is our ability to continue to write new business with an attractive economic and cash flow profile while at the same time managing the overall portfolio for value that reinforces the strength of these capital dynamics.

Turning now to the balance sheet. At the end of September, our Solvency II surplus is robust at GBP 12.8 billion, equating to a cover ratio of 201%. Operating capital generation remains the key driver of our position, helping to absorb the adverse impact of market movements in the period and funding the cost of dividend payments. Within operating capital generation, management actions which were taken in the first half of 2017 have added GBP 0.2 billion. Whether you look at this at a local level or at a group level, what we are aiming for is largely consistent across the piece. That is a capital position that has 4 main attributes: one, it is composed of high-quality sources of capital, with growth largely driven by operating capital generation; two, it is able to fund organic growth ambitions within the parameters of our risk appetite; three, it's resilient to market and regulatory shocks, with sufficient buffer to absorb any impacts and enable the businesses to meet their strategic and financial objectives; and finally, it has headroom and flexibility to be able to take advantage of market dislocations and other business opportunities as they arise.

By meeting these aims, we would also expect to be able to demonstrate to all of our key stakeholders, including our regulators, customers and distributors, that we are committed, responsible long-term operators in the countries in which we operate.

Now I've included in the appendix a slide that demonstrates the quality of our debt capital, which is dominated by perpetual fixed-coupon instruments. So although we have, ultimately, need to replace bonds grandfathered under Solvency II before 2026, we have the flexibility of time to effect this in an orderly fashion. As such, we recently announced that we will be calling GBP 1 billion of grandfathered Tier 2 sub debt, 6.5% in December, having issued $750 million of Solvency II qualifying Tier 2 perpetual sub debt at 4.875% in October.

To illustrate how the capital we have generated is then deployed, I've shown you on this a 5-year consolidated view, which should moderate the impact of one-off items. So starting on the left-hand side of the slide. This highlights how, for our life operations, active management of our 2011 in-force portfolio and the compounding benefit of subsequent additions of profitable new business has delivered strong growth in the level of expected surplus generation. Taking the five years together, this totals GBP 11.1 billion.

Moving to the chart in the middle, the GBP 11.1 billion of surplus generated is comfortably in excess of the amount we recycled into investment in new business. The headroom here is a critical element of the capital velocity of the group, demonstrating the benefit of writing business that is low strain but high return and with rapid payback. After new-business strain, the majority of what remains was remitted as cash from the life operations to the group. Investment in other variances roughly net off with a small benefit from ForEx. And the balance has been used to reinforce the capital position of our local businesses as they continue to grow in scale.

The chart on the right shows how capital remittances of GBP 5.6 billion from life operations and GBP 1.8 billion from asset management was used to cover the growing dividend and also corporate costs, which primarily comprise interest and other central expenses. Over the period, within the total dividend paid of GBP 4.6 billion, the annual payment has doubled from GBP 655 million in 2012 to over GBP 1.2 billion in 2016. Reflecting the increasing commitment that our growing dividend represents and the growing scale of the business, I believe it is appropriate that our central liquidity buffer also increases in size. We have always maintained a buffer above our central outgoings and will continue to do so.

So in practical terms, growth in cash to the center will, under normal circumstances and over time, principally follow growth in free surplus rather than drawing down on cover.

Finally, in this section, I want to cover returns to shareholders and reiterate our dividend policy, which is unchanged from what we outlined to you a year ago. This is a retrospective policy, by which we mean we assess the affordability of the dividend annually based on the performance of what the group has actually delivered. Given the strength of the group's capital generation and our approach to manning conservative cash and capital buffers, which I've just highlighted, we have a high degree of confidence in our ability to grow the dividend by 5% per annum even under stress. As we have done in recent years, we will continue to use a broad range of financial measures to assess the potential for additional distributions, which we must also consider against competing uses of cash such as investing in opportunities that might accelerate our growth. We believe this policy has served the group and the shareholders well, resulting in a progression of the ordinary dividend, as shown on the right.

So in conclusion, the operating progress of our businesses to date continue to demonstrate the key attributes of the group, namely strong market position in the right markets; broad diversification and delivery across geography, product and channel; and the ability to adapt at pace to new opportunities and changes in market conditions.

The capital dynamics of the group remain distinctive to Prudential, in that they are underpinned by the growth and quality of the self-financed new business that we are adding year after year, which results in strong, compounding capital generation.

With that, I will now hand you over to Nic and the team. Thank you very much, indeed.

Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Thank you, Mark. Good morning, everyone. And let me start by saying what a great pleasure it is to be addressing you today as the CEO of Prudential Corporation Asia. I have been in the role for exactly four months. Over this time, I have traveled extensively across the region. And I spent time with the mid senior management teams of every single one of our 26 businesses. I now have a much better sense of the incredible size of the opportunity in the region, of the sheer scale of our operations and the very broad and deep set of capabilities across our businesses. So over the next 20 minutes, I will share my insights in each of these 3 areas. And I will outline our strategic priorities in the region. Lilian and Guy will then provide you with more color and context for our insurance and asset management businesses, respectively. I will then wrap up the PCA's session and take your questions.

So while the industry context is fast evolving, often in response to changes in customer behavior and to the regulatory and political landscape, the industry's mandate remains well aligned to the growth and prosperity agendas of both consumers and governments. Importantly, the structural trends remain intact. The multiple growth curves that underpin the strong demand in savings -- for savings and protection across the region will provide tailwinds over many decades.

The first structural trend is the growing working population, which is predicted to increase at over 1 million people per month. This means that between 2015 and 2030, some 178 million people will reach working age in Asia, roughly equivalent to the combined population of the U.K., France and Italy. By 2030, around 50% of the world's working population will be in Asia. So with a current customer base of just 15 million, we have plenty of headroom to grow.

The second trend relates to the significant economic growth potential of the region, with GDP in Asia predicted to increase 3x faster than the U.S. and be nearly twice the size of the U.S. economy by 2030. The implications of this on wealth creation in the region are profound, with private financial wealth predicted to rise in the next five years from USD 53 trillion to USD 78 trillion. Today, Eastspring manages GBP 131 billion of customer savings. So we have plenty of headroom here as well.

The third trend is the expanding protection gap, with out-of-pocket health care spend in Asia being 4x greater than the U.S. or the U.K. by 2020, this health gap is expected to amount to USD 161 billion. And finally, Asians today are relatively underinsured and undersaved with penetration averaging 2.4% across the region. And of course, with 65% of personal wealth in Asia currently held in deposits compared to 14% in North America, insurers have plenty of runway even today, nevermind in the years to come.

The opportunity set is therefore one of a kind in our industry. And it is no coincidence that competitors find the region attractive. However, what will continue to differentiate the winners from the losers will be the discipline and quality of execution. When it comes to execution, PCA has all the key attributes for success. The first attribute is our footprint. We have 26 businesses across 14 countries covering most of the opportunity set and giving us access to 3.3 billion Asians. I don't believe that we have any major or obvious strategic gaps in our current business portfolio. The second is that we have businesses which operate across the maturity spectrum with lifespans ranging from 94 years to 17 months. There is little going on in the industry that we are not doing or pioneering. We can and we are accelerating collaboration and sharing across businesses to further drive our progress.

The third attribute is our sheer scale in the region. We have 14,000 employees, over 6,000 -- 600,000, rather, agents, access to 10,000 branches and a 15 million customer base with 24 million policies. We have top 3 positions in 9 of our 12 life markets giving us a balanced portfolio by geography, by distribution channel and product. Scale is a key competitive advantage that we will increasingly look to lever going forward.

The fourth attribute is that in Eastspring, we have the largest retail fund manager in the region ex Japan. Eastspring benefits from the reliable and growing life business inflows, providing it the headroom to develop investment strategies, which we can also deploy to third-party clients. With a presence in 10 markets, over 250 investment professionals, 3,000 staff and GBP 131 billion of AUM, Eastspring's growing capabilities are an essential component in serving the growing wealth needs of Asians. I do not wish to overplay this. But in the regional context, Eastspring is a unique asset for our shareholders.

And the final attribute is our diverse and highly talented workforce with a mix of over 40 nationalities, a very rich blend of experience from insurance and from over 10 other industry sectors and with Millennials making up 70% of our staff, we have a diverse, vibrant and highly capable workforce focused on delivering results and on out-executing our peers. The combination, therefore, of our broad capability set, wide business footprint and significant opportunity in the region is what underpins PCA's future growth trajectory in Asia.

I talked about execution being the differentiator and this starts with having a clear set of strategic -- a very clear strategic road map. PCA's strategic priorities fall under 4 broad categories. The first is what I would call enhancing the core. There are a number of aspects within this category from broadening our flagship product set, expanding our distribution reach, indeed leveraging it more fully to provide our existing customers a second and third product, establishing new routes to market through nontraditional partners and seeking to work differently with more traditional channels. Now we hope to update you soon on our in-flight initiatives here.

We're also looking to accelerate the work to automate the back end and digitize the front end of our businesses. In the next three years, we will step up our annual CapEx technology spend from GBP 50 million to GBP 100 million. This increased spend will aim to deliver near full E-submissions across our businesses; straight-through processing making our businesses mostly paperless; policy issuance in minutes; faster claims, payments, inquiry resolution; accelerated product launch times; and an enhanced ability to connect with the broader cloud-based ecosystem.

The second priority is to create a best-in-class health capability. We are already one of the leaders in this space. And we will accelerate our efforts to participate more broadly in this business segment. Over time, you will see us offer more comprehensive and flexible coverage, expand our routes to market and provide a wider range of value-added services. We will build out our presence in the SME segment, which will provide us with more data and give us greater scale leverage. To enable this, we will look to bring in new capabilities with the appropriate levels of expertise.

The third priority is to accelerate Eastspring, positioning it to play a greater role in managing Asia's rising wealth needs. Today, Eastspring is primarily an Asian-focused value-based manager. To this strong base, we will add a range of investment strategies and styles through a combination of build and rent approaches. We will complement this by enhancing our distribution and add digital tools to both enable sales and offer a D2C alternative. We are progressing with the modernization of our front and middle office by deploying BlackRock's Aladdin platform across Eastspring's operations, which will enhance our ability to scale this business at pace.

The fourth priority is to expand our presence in China, which given its size in the region, is clearly important for our success. China will be material to Prudential long before Prudential is material in China. Both Lilian and I will come back to this opportunity later in the presentation.

Now the ambition embedded in these priorities is significant. But it is well matched with our capability set. Our current capability spectrum and bandwidth is both broad and deep and anchors our financial and strategic progress.

As shareholders, what you're investing in is our ability to leverage our scale and presence to deliver value to a broad range of stakeholders. As you can see from the slide, we're making strong progress across multiple dimensions, such as developing relevant product and services, improving engagement and meeting customer needs, digitizing our businesses from front to back, enhancing distribution efficiency, growing our talent and promoting financial inclusion and CSR. Lilian and Guy will showcase live examples of these capabilities from across the business. When you stand back from the various examples that they will share with you, what you will see is an organization which is highly progressive and one that is implementing modern tools and solutions at scale in a live environment.

Before they do so, I would like to briefly touch on 2 specific areas. China has been in the news lately. And our progress here is nothing short of stunning. We currently operate in 74 cities, giving us access to 76% of China's GDP and to 940 million of its population. During October, we were granted a license to conduct business in Sichuan, which is currently the fourth largest province with a population of 87 million. We have deployed our Asia playbook with great success in this market. By operating a quality-led well-balanced business, we have been able to grow our presence, scale and profitability at pace. Today, we have 1 million customers with 2 million policies, which is substantial in any context, except in China, where this represents only 40 basis points of market share. Even so, on a 100% basis, China is now our third largest contributor to NBP in the region up from 8 in 2012. However, the story is not about our current position. But about the future potential.

The leverage in value creation as we gain every extra basis point of market share is considerable. Not only do we have a long way to go in penetrating the current market if the CIRC's 5% insurance penetration target by 2020 is achieved, the size of China's life market would exceed that of the U.S., adding further momentum to a pre-existing large base of uninsured Chinese.

The picture remains the same in asset management, with China expected to garner almost half of the world's inflows over the next five years. The upside for Prudential is indisputable. We have an expansive toolkit in terms of products, technology, distribution and people to deliver sustainable high-quality growth. China today is one of our most advanced operations when it comes to both automation and integration with the country's highly evolved consumer and payment platforms. From onboarding customers in 30 minutes to cashless claim reimbursements and everything digital in between, we are punching above our weight in terms of operational capability and can go toe to toe with anyone in this market. I am excited by not only the significant headroom for growth here but also by the option to increase our participation following last week's announcements on the further opening up of both the life and asset management markets.

The second area that I want to briefly touch on is Eastspring. Asset management in Asia is another space where there is significant runway, given the rising levels of private wealth and the sheer size of savings currently held in deposits. Savers in the most developed Asian markets are increasingly seeking more sophisticated local and global strategies, while those in the more nascent southeast markets are simply looking to participate.

Eastspring's success in attracting third-party flows has been primarily driven by the strong demand for local equity and fixed income products. In contrast, the proportion of AUM deployed in multi-assets, infrastructure, alternatives, quants, emerging market debt is modest. As Asian investors -- as Asia investor demand for these types of assets is already significant and rising, we are developing strategies to capture a larger share of these flows.

In the course of 2017, we have recruited a number of senior investment professionals in infrastructure, multi-assets and active quant. And we're starting to secure some sizable mandates.

While we are developing these capabilities in-house, we're also looking for opportunities to partner with other asset managers, leveraging our distribution and relationship footprint. We already have this in place with our internal partners M&G and PPMA. And we're in active discussions with external parties.

Today, we are pleased to announce that we are strengthening our existing relationship with BlackRock by entering into a strategic partnership in Asia. This partnership will combine BlackRock's leading iShares ETF offering with Eastspring's Asian investment expertise, distribution reach and asset allocation capabilities to create unique investment solutions that meet the growing savings and investment needs of our client base in Asia.

On China, alongside working with our joint venture partner in the retail segment, we're separately looking to tap into 3 other significant opportunities. The first is the growing non-retail or private onshore demand. The second relates to the rising inbound flows from overseas investors. And the third is capturing the outbound flows from Chinese investors. We have started the process to establish and resource wholly foreign-owned entities and secure the appropriate registrations and quotas. Over time, this will be very additive to our business.

I would now like to change tack and give you a quick flavor of our more recent trading performance. Now as we principally focus on the financial KPIs at the end of each quarter, it is very easy to lose sight of some of the truly astonishing operational metrics which speak to our scale. Every month this year, we have recruited on average 15,000 agents, handled 2 million customer interactions and processed nearly 200,000 claims. So far in 2017, we have added over 1 million new customers with our annualized customer retention rates has remained around the 95% level.

Mark has already covered the 9-month sales highlights and net flows. So I will draw out just 2 key points. The first is that our sales mix remains high quality with H&P sales up 16% across the region. And the second is that the performance continues to be broad-based with Asia ex Hong Kong growing at 24% and with 7 of our markets delivering double-digit growth. In fact, in the course of the Third Quarter, the year-on-year sales growth rate accelerated in the important markets of Malaysia, Singapore and Indonesia. The benefit of this high quality and broad sales mix comes through in our reported NBP, which was up 15%, supported by a 16% increase in the contribution from health and protection. These results demonstrate that we are in the privileged position of delivering strong progress in 2017 alongside having considerable growth runway going forward across multiple dimensions.

I would now like to turn over to Lilian first and Guy second, who will cover how we are executing in various markets and how we are adding to our current capability set. Lilian?

Lilian Ng {BIO 4943480 <GO>}

Thank you, Nic. Now we pride ourselves as having an advantaged platform with proven track record delivery. And to capture the growth potentials highlighted earlier, we are always innovating and differentiating. Now what is setting us apart now and in the future are our delivery of customer experience as a source of competitive advantage, our investment in digital capabilities to empower our sales force and customers, our end-to-end redesigning of processes for efficiency and our fit-for-growth culture to execute. Now let me show you how we are deploying these capabilities in the businesses.

China. Now other than the sheer scale, the stand by CIRC for the healthy development of the insurance sector makes the growth potential more attractive. Regulations are increasingly favoring products with more insuring risk elements. And at the same time, curving products designed for quick returns.

CITIC Prudential's strategic focus is to expand distribution reach for value creation. We have reach across 74 cities in 18 branches and present in all top 10 provinces ranked by gross written premiums. Now being in the right geography gives us the leverage to frame a fast-growing, active and performance-driven agency force.

The 3 agency strategic payers for CITIC Prudential are training, productivity and growth. We have implemented a full-time manager's training scheme combining classroom training and e-learning with on-demand content. Productivity for this control group grew 31%. And we are mobilizing e-learning using Alibaba Cloud. Our recognition system is structured to drive productivity. This has resulted in 58% growth in our MDRTs. We are continuing to deploy the general agency model for efficient expansion. Asia, within this 11 GAs, made out 11% of the agency force. But contributing to 25% of sales. On bancassurance side, we have adopted a customer-oriented strategy to broaden and deepen our partnerships. Our insurance specialists are skilled to deliver solution to fit customers. The result, bancassurance sales are 88% regular premium and with product margin 3x higher than that of our competitors in this space.

For the next set of innovation and expansion, we are piloting an online to off-line model to broaden reach with 4 banks.

(presentation)

So China having the world's most digital-heavy populations, CITIC Prudential has a versatile marketing and servicing digital platform branded, Xin-Yi-Tung, which literally translates as trust, easy and true. Now it's what makes it easy for customer across all touch points, from sales to servicing and to claims. As Nic mentioned, issuance only takes 30 minutes to include underwriting and verification, with e-policy delivery in seconds. Now Xin-Yi-Tung is available on mobile device, web page account and WeChat account and carries a handle for chatbots.

In 2016, Xin-Yi-Tung introduced E-Claims. Before E-Claims, the process time for seven days hospitalization would take 18 days. This was reduced to 11 days with E-Claims. And when we added WeChat claim payment, the overall processing time reduced to 1.58 days.

The innovative WeChat claim was recognized in the 2016 Insurance Service Innovation Award by the China Insurance Post. At the same forum, CITIC Pru was also presented with the 10 most impactful claims award, the only foreign insurer winning both awards. The video you saw earlier was the story telling you what that award was about.

Usage rate for WeChat claim is down 99%. We are ready to move on to the next wave of innovation and starting in Hubei province, we are offering cashless arrangement with (panel) hospital and aim to cover 200 hospitals over time.

Now CITIC Prudential is an all rounded performer, strong sales momentum and ranked first amongst foreign insurers in terms of net profits, return to shareholders and risk management. And we are the only foreign insurer to be awarded an A rating for the annual service assessment by CIRC in 2016.

Hong Kong. The Hong Kong life insurance sector experienced double-digit growth over the past decade, a reflection of the strong demand for insurance. The onshore market grew in excess of 20%, driven by a wealthier and health-conscious population looking to diversify risk and protect families and wealth, more than 70% of our target customer for insurance and medical plans. Now the survey said that while consumers carry out research online, face-to-face advice is important. Consumers are willing to pay a premium for service, brand reputation and financial strength. These attributes and project preferences are also relevant to Mainland China's visitors to Hong Kong. Hong Kong is an attractive destination for the 25 million Mainland Chinese visitors every year. More than 58% of the visitors come to Hong Kong to manage their personal wealth. And for 27% of them, this is their primary goal. This pool is our target market.

Prudential Hong Kong has the fit-for-growth platform to tap into this continued demand. We have a well-diversified distribution allowing customers to choose their access point. Our agency force has 18,000 professionals with 23% being MDRTs, the largest in the market. The long-standing partnership with Standard Chartered Bank continue to serve the insurance needs of the customer with over 150 specialists.

Now our customer connectivity platform is digital first. This platform not only service the customer the way they want to be served, it is also powered by intelligence to provide insight, enabling the next best offer for them. As actions speak louder than words, I'd like to show you a short clip on how we have made it easy for the customers.

(presentation)

Now as you saw from the clip, we offer innovative solutions with value-added services that are beyond just paying claims. Last year, we were the first insurance company in Hong Kong to offer customer access to a DNA-based health and nutrition program, myDNA. Now a survey was conducted in midyear to evaluate the impact of myDNA on the lifestyle of the users. 88% of the respondents said it helped me to understand more about the diet and nutrition, 94% used myDNA to live healthier and/or to lose weight. We are now offering the next generation of innovative solution with myDNA Pro. This is a precision health program to understand risk of developing the 3 Highs, diabetes, blood pressure and cholesterol. This also comes with an e-health coach to offer unique lifestyle intervention programs. The testimonials from our clients said we have made a difference. This is what the customer values. And we have subsequently launched myDNA in Singapore, Malaysia and Vietnam.

The approach to providing value proposition to customers is recognized by the industry. We have won the Hong Kong Insurance Award for outstanding customer service for the third consecutive years. Now the fit-for-growth platform that Prudential Hong Kong built and evolved has enabled the translation of the top line revenue as earnings and delivering strong growth over the past five years.

The Indonesian insurance market is often being referred to as the most attractive within Asia. There have been successes in growing the insurance. But penetration remained low with only 18 million policies. 50% of the population is below age 30. And the size of the consuming class will triple in 15 years. The outlook in this is positive. Now with Indonesia being the place to be, we are investing capabilities, resources and platform to execute.

As for our connectivity platform to enhance customer experience, we have also built out a digital platform to provide seamless experience for the agents. The agency workbench we formally call PRUforce force is an all-in-one marketing activity tool that provides frictionless recruitment; improving onboarding from 20 days to two days, interactive online training, anytime, anywhere; and tracking of achievements, including commissions and productions real time.

Let me show you how this works.

(presentation)

The workbench is strengthening the effectiveness and productivity of the sales force and with capacity to support the 5,000-plus agents we onboard every month. And to allow agents to focus more on what they are good at, selling. And less on servicing, Prudential Indonesia is moving to an integrated servicing model direct to customers. To do so, process at each touch point has been assessed and redesigned to enrich customer experience. I'd like to show you our PRUcheers initiatives. So using data, intelligence and user experience, we developed a business engine to perform preassessment of claims. Cases are automatically classified by complexity. Lower risk cases are passed through the green lane for settlement in minutes. And high-risk claims are passed to assessor that commensurate to their skill sets. This has reduced turnaround time by 15% and allow more focused training of our assessors in managing claims. With PRUcentres, we bring service to customer by upgrading the 400 GAs across the country to service our customers. The GA offices are provided with analytical tools to prioritize service cost and dedicated resources to train, monitor and track. We plan to open 8 best-in-class service centers covering 75% of our customer base.

Now let me show you how customer outcome is at the heart of all we do.

(presentation)

With our scale of over 3 million policies and experience, we are making evolutionary improvements at all fronts. And we are extending capabilities, not just to make a difference for Prudential Indonesia. But also for the Indonesia life insurance industry.

Now Singapore has a well-developed insurance market. It is a cashless society, with 40% of the wealth in cash and deposit. The protection gap is very significant as USD 402 billion in aggregate, giving headroom for selective growth. Singaporeans still look for face-to-face advice. And this is our strength with our exclusive distribution in agency and partnerships. For agency, we have an attractive platform for recruits. We contributed to 1/3 of the industry new agents and over 70% of recruits are Millennials. Activity and productivity are enabled by digital tools as evidenced by our consistent leadership in the regular premium space. For bancassurance, our long-term strategic partnership with Standard Chartered Bank and UOB continued to deliver for their partners and their customers. Over 80% of sales are regular premiums compared to 60% for the industry. Now to capture the health and protection gap, we have an all-embracing platform to drive awareness and to formulate bespoke customer solutions. We have seen a 45% increase in protection cover per policy this year.

Our journey to embrace digital actually started more than a decade ago in Singapore. Our approach covers the entire spectrum of the customer and sales force experience. Now with technological advancement, we continue to innovate to address changing customer behavior, the potentials are enormous. Partnering with IBM Watson, we've launched askPRU, the first in the market insurance chatbot linked to the back office engine. askPRU is designed for the agency force and provides real-time information relating to customers' insurance plan. askPRU is also trained to probe users on the intent of their inquiries and to stimulate real conversations. We are also piloting an industry-first machine-learning solutions to assess claims in seconds. The goal is to provide a frictionless customer experience during the moments of truth.

From their humble beginning in 2004 when we first launched the point of sale on the computer, Prudential Singapore has moved to the next digital wave. PRUONE Express is the fourth generation digital point of sale portal, with quotation prepared in just 3 minutes and the latest fingerprint authentication. Let's see how this works.

(presentation)

And we're not stopping there. We just announced a partnership innovation yesterday. Prudential Singapore and StarHub launched a blockchain-based digital trade platform to support the growth and aspiration of the SMEs. So our well-advanced investment into digital to impact distribution and customer have led to sustainable profitable growth over the year. And the capabilities invested position us well to deliver in the future.

Malaysia is a multiethnic, multicultural society, where 69% of the population are Malays. Almost all of Malays are Muslims, needing Shariah-compliant insurance solution called Takaful. Both insurance and Takaful penetration measured in terms of the number of policy is relatively low. Now given the diversity, Prudential have a two-pronged approach: to expand in insurance and to lead Takaful.

On the insurance side, medical and protection on a unit-linked chassis remain our core proposition. We are accelerating recruitment on key urban areas focusing on Millennials aspiring to be their own boss. Our sales force is supported by PRU dream planner, the first-in-market interactive and animated financial needs analysis linked to a sales platform PRUway plus. On the Takaful side, we lead the space on bespoke solutions. PRUMuslim was first launched in 2010, which aims to fulfill the spiritual needs with double protection during Holy Pilgrimage. Warisan, launched in 2016, won the innovative solution awards by the Malaysian Takaful Association. This solution embeds the concept of hiba, which means a gift. Hibas allows one to distribute asset voluntarily to nominated beneficiary without going through the prolonged inheritance procedures under the Islamic Inheritance Law. Now with the awareness of estate planning, the average sum assured for Warisan is more than MYR 400,000. This is 7x higher than the market average.

Our two-pronged strategy has allowed us to serve 2.2 million customers and deliver 10% profit growth over the last five years. We remain bullish on the growth opportunities in this market.

Now to further diversity, we asked getting up high-performing businesses as growth engines. Now leveraging regional capabilities, we are investing in distribution, improving customer experience and transforming operations. Vietnam, Philippines and Cambodia is our fast-growing economies. The very low insurance penetration and rising middle class makes favorable outlook for life insurance.

Both Thailand and Taiwan are sizable markets in terms of total premium. Our focus in these markets is to optimize values from partnership distribution through a scalable business model. We have employed various partnership models, including distribution exclusive and product exclusive.

So we know where to play and we know how to play. And we are committed to extend capabilities and know how to execute. We are investing in people. And digital is now a way of life. So as we say, we are always innovating and always delivering. And with this, I pass to Guy.

Guy Robert Strapp {BIO 15272859 <GO>}

Thank you, Lilian. Good morning to you all. The growth story in Asia is increasingly compelling. Based on retail mutual fund market, Asia is seeing the fastest growth among all regions, largely driven by the demand from China. Asian mutual fund growth, 2016 to 2021, is set to grow at 11%. Now this would compare with an equivalent rate of 6% in the U.S. and 5% in Europe. China's importance also increases over the period, with mutual fund growth at 13%. China is the largest asset-managed market in Asia, with retail mutual fund at GBP 1 trillion as of the end of 2016. The mutual fund market there is expected to grow to GBP 1.9 trillion by 2021 and account for 49% of all mutual funds in Asia.

Over this time, Asian clients will become increasingly sophisticated and demand greater diversification. Eastspring is well placed to be beneficiaries of this growth. And I will demonstrate that this morning.

Our sustained growth in assets and profit is attributable to unique -- our unique competitive position, consistent investment performance and quality product solutions. Our diversified and growing client base is a mix of life, institutional and retail.

Our asset mix remains diversified as well, with approximately 50% in higher-margin equities. Importantly, Eastspring has the largest geographic footprint in Asia, with on-the-ground expertise in 10 markets. In 6 of these, we are top 10. Our nearest competitor is in 8 markets with 4 top 10 rankings.

Now I've shared these strategic priorities with you previously. And while the headlines on the left remain unchanged, we continue to recalibrate the initiatives on the right in response to the changing landscape as well as the completion of prior initiatives. Each of these is specifically directed to capture the growth opportunity I described on the first slide. I'll take these in order.

Deepening investment capabilities. Historically, we have been a valuation-driven house with a heavy Asian bias. While value as a style has underperformed, 70% of our value equity funds have outperformed their respective value benchmark over the past 12 months. We retain our high conviction to value star while complementing this with new capabilities in quantitative equities where we are running money for the life clients in low volatility strategies. We are also introducing growth equity, which is specifically relevant, given capacity constraints in some of our fundamentally driven flagship capabilities such as Japanese equity.

In addition to diversifying our investment styles, we're also developing strategic product partnerships to fill product gaps. The partnership Nic announced earlier with BlackRock represents a case in point as we work together on compelling new product design for our North Asian clients, which will emphasize Asia's economic growth, technology presence and shifting demographics.

Secondly, enhanced distribution and coverage. China is currently a predominantly domestic market with initiatives to support the opening up of the market over the past 10 years including QFII, QDLP, Stock Connect and Mutual Recognition. We expect further gradual liberalization with a phased inclusion of China in the MSCI Emerging Markets Index commencing in the summer of 2018. I'll make further comment on China in a moment.

Across Asia, we are monitoring opportunities to partner closer with our life client and further build our Asian footprint. For example, Thailand's mutual fund industry has matured from being money market-centric and is a logical extension to Eastspring's capabilities.

Our third strategic priority centers on what we call a target operating model. TOM is a transformational program, which focuses on the way we work. There are 3 key outworkings: scale of pace, risk management and controls and centralization and standardization. We are achieving this through Aladdin from BlackRock solutions, (BNP) for middle office outsourcing and GoldenSource for enterprise data management. I'll speak to each of these 3 priorities in a little more detail.

Our strengths in Asia include Japan equity, India equity managed in Mumbai through our JV partner, Asia equity income, Asia REIT, fixed income and global asset allocation. These are all best-in-class award-winning capabilities.

Now Japan equity concentrated portfolios were soft closed in 2015 to help preserve the offer enjoyed by clients and continue to gather flow from those existing clients. The equity in fixed income performance in India has helped propel ICICI Prudential Mutual Fund company to the coveted #1 position in India as measured by total funds under management. They now sit in the scale ahead of HDFC and Reliance. The Asia equity income products has led in that sector over the past five years through a distribution partnership with Okasan Asset Management in Japan. In fixed income, we continue to see flow from retail clients in Asia into Asia bond strategies as well as institutional mandates from sovereign wealth funds and central banks. We have been awarded. But not yet funded, GBP 750 million from one such client. We are now adding to these well-established capabilities. We're expanding our quantitative solutions team with a multifactor capability launching in December. This will supplement the existing low vol product I mentioned a moment ago. We're also seeking to commercialize alternative assets, especially infrastructure, with steps now in trying to seize co-investment opportunities. We're leveraging our high-quality global asset allocation team by building multi-asset solutions for our third-party clients.

Eastspring is also procuring global capabilities through Prudential affiliates and external partnerships.

To recap on recent product successes, on the right side of the slide, Asian REITs was launched in 2013 and now has GBP 900 million of funds under management. The inflow into this product in 2017 was GBP 730 million. This product was remarketed in Japan earlier this year to capture the growing demand from retirees looking for a stable high-yield product. We also signed a landmark agreement with the IFC, a member of the World Bank group, under the managed co-lending portfolio program to deploy USD 500 million or GBP 380 million in emerging market infrastructure, the underlying investors being the life businesses in Hong Kong and Singapore. The India umbrella fund launched through a successful IPO in Taiwan raised GBP 258 million and is an India balanced fund and India bond fund. This collaboration is with ICICI Pru and was launched in Taiwan to access growth opportunities in India. Also of note, although not shown here, is the capture of GBP 260 million of assets in Japan also into Indian strategies, namely utility and infrastructure bond fund, the India consumption-related equity fund and the India infrastructure equity fund. The U.S. bank loan fund was launched in 2014 and has raised GBP 254 million. This is a collaboration with our colleagues at PPMA and marketed in Korea early this year. The product is positioned to diversify clients' portfolios to U.S. dollar-based assets, especially given the geopolitical tensions in the region. And finally, the Asian low vol equity product was launched in 2016 and raised GBP 213 million in an innovative strategy designed to deliver higher risk-adjusted returns and an attractive dividend yield across market cycles.

The second strategic priority is to enhance distribution and coverage. As stated earlier, China is the largest asset market in Asia. On the 10th of November, China announced that they will liberalize foreign ownership -- the foreign ownership limit applying to domestic fund management companies, which is currently 49%. The foreign shareholding unit will be raised to 51%. And after three years, the indications are that there will be no limit on foreign ownership. The timing is yet to be determined but is expected to be in coming months as soon as regulators implement the policies that are required. We continue to build on our strong partnership with the CITIC Pru. And we are in the process of establishing a WFOE, as Nic explained, a wholly foreign-owned enterprise, as well as recruiting to establish an onshore investment team and thereby increasing our focus to service and support clients in China.

Our institutional client segment is important for us. And although institutional FUM only accounts for 6% of our assets as at September 7 -- as at September 2017, our focus is to build on this GBP 8 million -- GBP 8 billion of institutional assets via recruitment and energizing consultant coverage.

We're also building technology-based enhancements. An example of that is shown here on the right-hand side with ICICI Pru iTouch app. As at September 2017, we have 147,000 customers registered on IPRU Touch. That's a ninefold increase on the number of users from a little over a year ago. The app gives timely access to quality content generated around market news and updates and creates compelling engagement opportunities for customers. Through IPRU Touch, ICICI is the only asset management company in India to offer instant paperless onboarding technology. Some 30% of purchase transactions at ICICI Pru are now digital.

Eastspring is exploring opportunities in selected local markets to experiment and pilot robo-advisory and digital tools. We're doing so in Taiwan and Malaysia where we have direct retail clients.

I referred to the TOM program earlier. We are investing in processes and infrastructure to enable rapid growth, further enhance risk management and control and build out our investment capabilities. We are introducing best-in-class tools for portfolio and risk management, providing a common operating platform which creates scale quickly. Improved data quality will strengthen investment oversight and introduce uniform risk reporting, thus aligning data governance and enabling improved regulatory reporting.

To close, I will share highlights from the 2017 Q3 results. On the right-hand side are the metrics relating to the half-year PBT, which itself represented another record. On the left are the flow and FUM numbers as at September 2017. The Q3 closing FUM of GBP 131 billion was 14% higher than the prior year and was lifted by favorable equity markets and strong inflow.

Year-to-date September net flows from third parties were GBP 2.8 billion, following inflow from the India equity funds distributed and -- distributed in Japan and managed by ICICI Pru, Asian REITs, CITIC Pru, which launched new funds in the institutional space and continuous inflow from Europe and the Americas into our Japan dynamic equity strategies.

In conclusion, Eastspring is well positioned to capture the growth in Asia and will do so through appropriate investment in the business and disciplined execution.

Thank you. I now like to pass back to Nic.

Nicolaos Andreas Nicandrou {BIO 15589153 <GO>}

Okay. Thank you, Guy. So before we turn to your questions, I would like to briefly remind you how our success of adding new cohorts of regular premium business each year translates into higher profits. For me, this slide articulates all the strengths of our business. We are a business with compounding revenues, underpinned by high quality recurring income that is uncorrelated to markets. As you can see, we have achieved our current scale and profitability while driving penetration in the markets in which we operate by a mere 20 basis points. Given the structural demand and the headroom across the region, I remain very positive on Prudential's future prospects in Asia.

Compounding revenues also drive compounding earnings. Asia is now growing at scale and is well on track to achieve the third consecutive set of public objectives. For the reasons that I have already outlined, I expect us to maintain a growing earnings trajectory. And even at our current scale, I would expect the business to double every 5 to seven years. As the proof of concept is now well established, we will not renew these objectives in March.

So by way of conclusion, I would like to reiterate a few key takeaways. The first is that Prudential's prospects in Asia continue to be underpinned by powerful long-term structural trends. We have a world-class business in the region with all the right attributes for success such as scale, quality and leading market positions. We have a clear and ambitious set of strategic priorities. We have proven best-in-class capabilities. And finally, we're confident in our outlook and very excited by the long-term prospects in the region.

Thank you for your attention. I would now like to invite Lilian and Guy to the stage to take your questions. In about 30 seconds, (we have) some housekeeping here. And Chantal, if you wouldn't mind moderating this.

Questions And Answers

A - Unidentified Speaker

Okay. So as Nic mentioned, we now have time for some questions specifically on Asia. So group Q&A can be addressed at the session before lunch. You can also table questions at any time on your Pru investor conference app, just go to the questions section. So if you'd like to ask a question, you're all very well-trained, raised hand. If you could please just wait until you're approached with a microphone. And if I can remind you to clearly state your name and the firm you're representing. So maybe if we could start with Jon.

Q - Jonathan Michael Hocking

It's Jon Hocking from Morgan Stanley. I've got 2 questions, please. On China, Nic, you mentioned the opportunities from the foreign ownership limits being changed. How is that going to work with your relationship with CITIC? So what is the incredible opportunity you have there to increase the ownership in China? Then secondly, on the asset management side with this sort of memorable WFOE opportunity, is that actually competing directly with CITIC and (inaudible) asset management or a hedging manage that relationship as you move to wholly owned entities in China in the asset management side?

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

Okay. I mean, in China, as I showed today, there are multiple growth curves. I mean, the opportunity just to continue to collaborate with CITIC is huge. All the developments that we've seen in the market are effectively pivoting towards the kind of business model that we have, a business model where there's a very high content of health and protection, roughly 40% of what we do in the market is health and protection, a business model where there's a very high content of regular premium business. Regular premium increased by 55% in China year to date. So the developments are strong and all the dynamics are very good. Of course, we would like to have a bigger share of our own business. But we rely to the fact that it isn't entirely within our gift. As I said, we will do well in China, whether we continue to hold the 50% or we're able to increase on the back of what's been announced, the -- our share. And Guy, would you like to just say a few things on the WFOE?

A - Guy Robert Strapp {BIO 15272859 <GO>}

Sure. So Jon, I see this entirely complementary. The license we have in the joint venture is focused on mutual funds and institutional segments. The WFOE that we are in the process of applying for comes in 2 arms. One is an investment management license and one is a QDLP license. And our focus will be on high net worth individuals. So that the actual target base of the clients is different and then the product we take to clients will be different. So China's focus will be on the joint venture delivering the domestic product and through the QDLP, in particular, we'll be looking to bring group product from outside of China as the market opens up to the domestic marketplace as well as offering and attempting to secure greater Q3 equivalent type opportunities as offshore investors seek to invest into China. So very complementary.

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

Under the terms of the deal, we are permitted to seek a second license provided it doesn't compete in the same space as the JV. Currently, the JV operates in the retail space where we've seen quite a lot of growth. As Guy has just mentioned, is in the nonretail private space. And that's the part of the market that we'll be targeting. Thank you.

A - Unidentified Speaker

Okay. Oliver? You can keep your hand up, Oliver. Thanks. In the front here.

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Two questions, really about the health and protection side. I think one of the strategic priorities in Asia that Mike talked about was expanding the health and protection business. There's a sort of sense there that it's an expansion as a percentage of the business. And yet on the (inaudible), I seem to remember that he seemed to suggest that 30% of new business profits or 30% of AP that was about the maximum you could take it to. So any thoughts on where you could take that to? Then secondly, I thought you were surprisingly modest when you were talking about your health business and saying it was one of the leaders. Usually, you're not quite so conservative in your assumptions. So is there a sense there that you've slightly lagged behind the top leaders? And if so, where and what are you doing about that?

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

Okay, maybe I'll say a few things and then Lilian can expand on. Yes, maybe you're right. Maybe I was modest. We are a very, very strong operator in the region, pretty much in every market. I mean, if you take Indonesia, health and protection is 70% of what we sell. In Malaysia, it's 50%. As you go into the Singapore, Hong Kong, China, it's in the 30s and 40s. It's a big contributor of our sales. But of course, it's -- that's not necessarily the only metric. 30% of sales is one thing. Health and protection delivers 2/3 of our profitability. And as you saw from just our results today and if you did any time series, it's been delivering strong double-digit growth in NBP over a long time. The needs are -- I mean, the needs are immense. The inflation is running in the high teens in many of the markets in which we operate. There's no social safety net -- social welfare safety net. And therefore people, as they get wealthier or as they live longer, take the opportunity to protect themselves. It's an interesting space because you have a number of the digital-only type competitors coming into that space looking to provide services. We have such a phenomenal footprint and presence across all the various markets that we are almost a destination of choice for many of these so-called startups wanting to play in this particular space. And I see ourselves. And my ambition is for us to effectively be at the center of an ecosystem that is -- that continues to be anchored on some face-to-face advice. Because ultimately this is a product that needs to be sold and attached to that, as I said, a whole host of services. MyDNA is an example of that. You know there are other initiatives we're working on. And I think, over time, we will look to use things like myDNA and other services to extend what we currently do. Adopt if you like a freemium-to-premium type model. It's an exciting space. But Lilian, what would you like to add?

A - Lilian Ng {BIO 4943480 <GO>}

I think in terms of how we look at health and protection, I mean, there are many aspects. Obviously, there's the protection which is the mortality cover. There is the critical illness and, obviously, there's the medical. I mean the way we look at this is, as Nic said, it's creating that ecosystem. I think we use the term, what we say is prevent, postpone and protect. And that's what we want to offer as our products and services to the customers. So that's why I think being modest is there's a lot that we can also add on and do more, yes.

A - Unidentified Speaker

Thank you. Blair?

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

It's Blair Stewart from BOAML. I've got 3 questions as well. First one, just looking at the Q3 sales and VNB number is discrete, I think there was a slowdown, Nic. I just wondered if you take out Hong Kong and the intentional actions you've taken there, would there have been a slowdown? I think you alluded to there possibly not being a slowdown? Hopefully, that's clear. Second question, if we look at Indonesia, you said that Q3 has been a better quarter. Just wondering if you can give an update on where we are with the development of the Takaful product there and kind of expectations for the future. And finally, just interested in the joint venture with BlackRock or the collaboration with BlackRock on the ETFs. Is that something you're looking to build into the insurance products at some point in time? Or is it just purely for Eastspring?

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

Okay, I'll take the first. And maybe, Lilian you, you can do Indonesia and Guy, the BlackRock. I mean, in terms of Q3, what I would say is that we are happy with the momentum that we have in Asia across the region. And actually, with the focus -- increasing focus that we're putting on quality. You're right, you have to look beyond kind of the headline, whether you're looking at Q3 or whether you're looking at the year-to-date position because we've taken some deliberate actions that have, if you like, the quality dimension in mind. You referenced that we've stopped -- pretty much stopped doing business with brokers in Hong Kong. That was a decision based -- informed by risk parameters at one level. But also on quality because the brokers mostly sold with profits business. They didn't have a very high health and protection content. So if you were to exclude, as we showed on the slide, the contribution from Hong Kong brokers, our sales were up 13% year-to-date. The other point on health and protection is significant. We've grown the contribution of health and protection across the region to our sales. It used to be around 25% in the first nine months of the year. Last year, that grew to 27%. In fact, the proportion that -- the proportion of health and protection in our numbers at the nine months in the Third Quarter specifically was 30%. And we're growing. There's a specific initiative that Lilian touched on, trying to sell more protection at the point of sale, when someone is buying a mortality or some other accident type cover. And the sums assured per policy that we have -- the average on the assured per policy again so far this year are up 30% on what they were last year. Now all of this is translating into a higher NBP. And NBP was up 15% across the region, 16% of that coming from H&P. And as I said, for the NBP to move forward in a double-digit way, you need H&P to deliver well because it makes up roughly 2/3 of NBP. Those were -- I mean. So what you saw in Q3 is no different to, if you like, the story that you're seeing in the year-to-date basis. So excluding Hong Kong, no, the rest of the businesses were up around 22% in discrete Q3. 24% at the half year. So kind of averaging to 24% for the nine months' stage. 7 businesses growing double-digit. So strong performance. And if you were to take the discrete Third Quarter, the new business profits were nearly up in that discrete quarter by around 10%. So the drivers of value-driven growth remained pretty much intact in the Third Quarter as we've seen earlier in the nine months. Indonesia.

A - Lilian Ng {BIO 4943480 <GO>}

Indonesia. And I think your question is on Sharia products. We do have a full set of Sharia products in Indonesia. So whatever we launch on the conventional side, we launch a similar version on the Sharia side. Actually, for our agency sales, nearly 20% -- about 18% to 20% of the business is coming from Sharia-compliant products. We actually look to that -- I mean, we are the #1 Sharia selling insurer in Indonesia as well. And we actually use that and actually do strategic partnerships with either banks or partners just focused on that product. So it's something that actually is a big strategic focus for us. And we do a recruitment seminar just focusing on recruiting with some agents on that.

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

Thank you, Lilian. I guess, more broadly on the sales momentum in Indonesia, I think it is improving. We're seeing some sort of green shoots. If you recall what I said at the half year, in the First Quarter, our sales were flat. In the Second Quarter, they were up around 3%. We've seen positive high, digit single-digit growth in the market in the course of the Third Quarter. Bank distribution is becoming more significant through the partnerships that we have with UOB and SCB. Banca sales in Indonesia in the nine months grew by over 15%. And they now make up 11% of our sales compared to around 9% a year ago. And just to reinforce the point on the Takaful, the Sharia business, it's also growing at a rate of over 15%. We are the #1 player. And it's now equivalent to a sixth of what we do. I mean there's a phenomenal opportunity there. And it's one of the areas that we intend to push on hard as we go forward.

A - Guy Robert Strapp {BIO 15272859 <GO>}

On the collaborative partnership with BlackRock, the gestation of that is more oriented towards thematic solutions. So the first product that I alluded to, we're talking to them about, is to leverage of the iShares ETF as a core component of -- a core passive part of the component. It could be a smart data strategy within that. Then have Eastspring active management again looking at more of the growth themes, consumer technology, et cetera. And we're looking at bundling that product together as we speak. Now having said that, the life companies already have about USD 4 billion invested in BlackRock ETFs via Eastspring. So we make active asset allocation decisions. And one of the most efficient ways to execute at low-cost in many of the markets we need to invest in for the life company is through ETFs. So we've had a long-standing relationship with BlackRock on that side. If we were to come up with a product that wasn't too thematic, if you like, for life client consumption, then of course, we would look at that and discuss it with our life colleagues.

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

I mean the important thing here is that we want to try and innovative than just do different things. I mean BlackRock is our competitor in many of the markets. But there's no reason why we can't combine our respective strengths just to do something jointly. And these are the things, as you go forward, that we're going to need to do more of, not only in Asia but in other parts of the world. Gone are the days where we're going to be operating purely by owning 100% of everything and trying to keep 100% of the economics. I mean, to your question, can we apply this in the life business? It's something that we're looking at. It's just too soon at the moment in our thinking. The unit-linked market in Hong Kong has pretty much collapsed following some guidance, regulatory guidance that came out a few years ago. A lot of their concerns, particularly on the distribution side, was making sure that the appropriate set of advice was given on a contract of a unit-linked nature. Now with the advent of a lot of technology, kind of robo-advice. But other type of tools at the point of distribution, there is an opportunity to look at, again, the business process and see whether we can use machines effectively to overcome some of the conduct type, concerns or that have effectively stifled that market across Hong Kong. And at the point of doing that, clearly, we may want to offer some more open architecture. So again, a collaboration with BlackRock on some of the strategies that they have can also support that idea. But it's kind of nascent in our thinking. But it just goes to indicate that as we build more capability, as we tie up with other people, we'll be able -- it will give us, as we build new technology and new routes to market, it will allow us to revisit kind of areas that to use in today's business model are proving a little more challenging.

A - Unidentified Speaker

Okay. We probably got time for 2 quick questions before the break. So if you could have one each. First, Greig. And then Arjan, you can keep your questions for the group, mop up at the end. So Greig first, please.

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

Greig Paterson, KBW. One question (inaudible) the -- I was just thinking, your comments about expanding your presence in the health and protection. And I was just thinking about your competitor AIA launching or partnering with Vitality in Hong Kong. AIA sort of moving into sort of nontraditional product. I was wondering if that's a threat. And what's your thinking? Are you going to move into that type of thing? Are you going to start buying hospitals, et cetera, et cetera? That's what I'm sort of thinking. It's what I'm musing about.

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

Okay. Thank you for that. We're not going to stop buying hospitals. But Lilian, would you like to...

A - Lilian Ng {BIO 4943480 <GO>}

I mean, I think, the way we look at this is as I think I said we described on the presentation earlier is how to be partnering in order to create that ecosystem for our customer with the value-added service. I mean, that's what probably what -- Vitality is about encouraging healthy living and we're doing that through myDNA, myDNA Pru and those other things that you see us doing. In terms of hospital, what we like to do. And I think we touched on it with CITIC Prudential, is we like to create a panel hospital that we partner with and create that seamless experience for our customers. I mean, Indonesia just launched their Pru medical or Pru hospital network just recently. So these are the type of things we're looking at rather than just focusing on one single area.

A - Unidentified Speaker

Okay. And...

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

Greig, there are other -- I mean, there are -- I mean, the collaboration that we have with Prenetics is an example. MyDNA is something now that has been launched in 4 countries. So it started in Hong Kong. We're the second iteration of that product as you saw earlier in Lilian's presentation. We're doing it in Singapore. We're doing it in Malaysia. We announced yesterday that we launched it in Vietnam. And that is effectively a wellness and fitness type program. With Prenetics, we have -- if you like, privileged access to some of the new things that they're bringing to market, either we have exclusivity on or we will get effectively to be the first to use it across our platform. And our discussions with 2 or 3 other providers at the moment. And we hope to update you on those in the coming -- in the next results or shortly after that. Lots to do in that space. And as I said, there are lots of opportunities to either support the prevention and the wellness aspect of our existing and potential new customers. And there are lots of things we can do, if you like, to drive further gathering of data, which is going to help us in a number of dimensions, be it in better pricing risk but also through understanding customers and being able to provide additional services to them. It's an exciting space and more we can do. And the SME space is not to be underestimated. We are now present in that market. Last week, we launched a revised SME product mostly around health and protection in Malaysia. Malaysia, 98% of all enterprises are SMEs. They have 600,000 SMEs in Malaysia. We are, just in Singapore alone, the 2 bank partners that we have between them, they have 105,000 SMEs as clients. So it's an area we're going to put a lot more emphasis as I see lots of advantages to be had from the extra data that, that gives us and the ability if you like to negotiate with the benefit of higher scale when it comes to third-party providers such as hospitals.

A - Unidentified Speaker

Okay. And Arjan?

Q - Arjan van Veen {BIO 5197778 <GO>}

Arjan van Veen, UBS. Just one follow-up question on potential China changes. And in 2 parts, please. Firstly, on the CITIC relationship, can you talk a bit about what infrastructure they have that help you expand big brand branches? Then secondly, on national expansion, the way you see the announcements last week, do you think that would allow you even if the status quo stays in terms of ownership to expand faster nationally and hence use up some of that excess cash that Mike was talking about earlier?

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

Okay. Do you want to comment on the use of CITIC's footprint in our current business model?

A - Lilian Ng {BIO 4943480 <GO>}

Yes. In terms of how we partner with CITIC, within the CITIC Prudential, obviously, CITIC has a substantial bank network. So that's where we partner with them. And as you know, in China, where you are allowed -- you need to have 3 different providers within the banking infrastructure. So we actually uniquely position ourselves in the regular premium space with the CITIC bank. We also work with them on the CITIC securities in terms of tapping into their customers. So there's many ways there. And also providing group insurance for the CITIC Group of companies. So there's many things that's happening. I mean, we work very well with our strategic partners there.

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

Thank you. Yes -- no, around sort of 40% of our sales in China come from the banking side. And CITIC is by far the biggest contributor of that. Now on opening up, really, there's been a whole host of messages that are being delivered over the last 3, 4, five months, clearly, the most important one being last week on ownership. But if you listened carefully to what was said at the 19th National Congress, kind of everything was positive. They said that the conditions are right and, therefore, they expect further opening up of the market. But in a controlled way, they want insurance companies to come back to their protection remit. Again, this is what I meant when I said that regulation is pivoting back to our business model. They want to -- they were very explicit about seeking to increase the number of insurance customers. The population is getting older. The government will not provide in terms of the welfare or income in retirement. So the government does see that they need insurers to play a role. And they're looking for the life industry or what they said they will do is allow the life industry to benefit more from the growing need of health care and elderly care. These are the public statements. Of course, it's China. Ultimately, all these statements need to be converted into policy. That won't happen overnight. But it does tend to happen quickly. A major, though, issue that needs to be unlocked before a number of these things go forward is the role that the CIRC will play going forward. Will it be the CIRC that will effectively specify the guidance and the rules? Will it be the Ministry of Finance? And if so, who will be at the helm of that? And at the moment, we don't have a head of CIRC. When that happens, we would get more clarity about how precisely the authorities are thinking about implementing those key positive messages. And as I said, we can tap into these into -- with our current ownership structure. And of course, we can accelerate that if -- in the event that we can deepen our ownership there.

Thank you for your questions. And I'm sure there will be more either through coffee, lunch or in the final session.

+++presentation

A - John William Foley {BIO 4239156 <GO>}

Everybody's settling down. Good morning, everybody. Let the last few people take their seats.

Welcome to the U.K. section of the show. You would recall that we announced back in August, August 10, the merger of M&G and Prudential's U.K. business to create the new savings and investment operation. We operate in 2 of the world's largest investment markets, the U.K. and Europe. And both of which are forecast to grow by trillions over the next 5 to 10 years. We think this is a really attractive market for 2 main reasons: growing demand for our solutions, particularly from transfer of risk to individuals; and the real need for differentiated investment offerings. Now the combined business of M&G Prudential has total assets under management of GBP 337 billion, that's 8% up on this time last year. And more than 7 million customers. This is a real position of strength. But look, we are not immune to the challenges that face the sector. However, we have a grip on these challenges. And we have solutions that will enable us to deliver our vision. And our vision for M&G Prudential is a business built around and for the customer, one that is simple and efficient, digitally enabled, capital-light, fast-growing and, above all, focused on delivery. We've created this business from a position of strength. And the business serves 5 distinct groups of customers.

In the U.K., we have affluent individuals buying our funds either directly or through intermediaries; mainstream consumers who want savings and retirement solutions typically bought through an IFA but who also come directly to us; and savers who own traditional insurance-based savings products. We also have a rapidly growing European business with GBP 40 billion of assets under management for the wholesale distribution markets. And we have nearly 800 institutional clients, including 2/3 of the UK's 50 largest pension schemes. And we must be doing something right. Europe has grown fastest over the last 12 months with assets under management up 47%, thanks to the popularity of products such as the M&G Optimal Income Fund. And in the U.K., our assets under management for the savings and retirement solutions business is up 43%. And that's mostly on the back of the success of PruFund. And as we said in August, there is growing demand from savers in the U.K. and across Europe for investment products which offer reliable returns, higher than cash. But with low volatility of markets. Optimal Income and PruFund are designed to do just that.

When we announced the merger in August, we thought the logic for combining these 2 businesses was pretty compelling. As we have got stuck into the detail, we have become more convinced than ever that this is the right thing to do and that the opportunities are potentially significant. We need to invest in our digital infrastructure to improve customer service, accelerate product development and widen customer choice. It is obvious that we should do this together. The merger and the digital transformation will bring efficiencies to our business. We will be able to deliver annual cost savings of GBP 145 million by 2022 with most of the progress coming in the first three years. And as important, we will be better aligned to the many growth opportunities that we see. And finally, the merger has landed well with colleagues, customers and other key stakeholders.

Now these are my high-level objectives for the business: Customers, building our business around them and using our experience and insights to meet their needs, crucial; Distribution, we will expand the range of propositions and the channels through which we deliver them; Investments, producing good outcomes for our customers through our expertise and innovation; and Merger and Transformation, creating a simple digitally enabled business with lower cost and an unrelenting focus on customers. Now if we get this right, then shareholders will see the benefits of revenue growth, an efficient operating model and efficient use of capital. And of course, we are developing a set of KPIs, both financial and operational, against each of these objectives.

We see strong growth in 4 of our 5 customer segments as we seek to identify revenue synergies. The fifth group, our traditional product portfolio, will generate cash, give us scale as an asset manager and provide a large stable customer base. A good example of where we see revenue synergies emerging is from our combined strategic asset allocation expertise. This will undoubtedly further enhance our investment solutions capabilities. And we're also looking at U.K. intermediary distribution and have identified a GBP 3 billion sweet spot of firms with whom we can do more business. And Clare will pick that up in the next session.

I will, of course, not be doing this on my own. There is a new leadership team who, together, have the breadth, the skills, experience and energy to make this a hugely successful savings and investment business.

Some of the team will be familiar to you. They were either part of the U.K. business or the M&G business. However, there are a couple of new team members who I should specifically mention, one of whom will be presenting today. Miguel Ortiz, recently joined us from Boston Consulting Group, is our Chief Operating Officer. A senior partner and global head of life insurance, he has been working with Prudential for a number of years and was well known to our team already. And I can assure you he's hit the deck running. And Keith Davies, who recently took over the role of Chief Risk and Compliance Officer, having previously been group-wide head of internal audit. I've asked the relevant team members to talk each of you through the objectives that I mentioned earlier and to answer your questions in a separate session that we'll hold at the end.

Now annuities. Before moving on, I suspect you have some questions around annuities. But I want to clearly state our position, which is really to repeat what Mike said earlier. This slide encapsulates how we think about this business. It is essentially a closed book, with net liabilities totaling GBP 51 billion spread across shareholder and policyholder capital. Our focus here is on optimizing the capital intensity of the shareholder business, this GBP 33 billion tranche.

On the left side of the slide, we note the important components of our investment strategy, which will not be new to you. But as you can imagine, we are very focused on this investment strategy as it drives both customer and shareholder outcomes. On the right side, you can see the capital optimization levers that we have been using for a number of years. Effectively, this is business-as-usual capital management that predates Solvency II and makes the portfolio more efficient from a capital perspective. However, there's one additional lever we are now considering, which is the potential sale of blocks of shareholder business. As Mike said, we are in the early stages of a process on part of the book. But we are on the no obligation to complete the transaction. We will benchmark this exercise against other options that we have to optimize the -- to optimize capital usage in this book. And so for these reasons, we will not reveal any information that we feel might prejudice our discussions. And I know you'll understand the commercial sensitivity here.

So I'll now want to hand you over to Clare Bousfield, who will talk to you about savings and investments and distribution.

A - Clare Bousfield {BIO 16746072 <GO>}

Customers and distribution, John.

A - John William Foley {BIO 4239156 <GO>}

I'll leave you to it.

A - Clare Bousfield {BIO 16746072 <GO>}

Thank you, John. I'm going to provide you with some information and insight around our customers, our proposition, the customer experience and the distribution and how we access our customers and clients. And I'll also talk through the growth opportunities across both customers and distribution.

Starting initially with the structural drivers for market growth. Mike talked about this in his presentation this morning around the kind of aging population, the savings gap in the U.K. And also, we as customers are demanding a lot more from our providers. We expect to be told, we expect to have real-time data about our investments and our savings. And we need to be fit for purpose in order to be able to deliver that. We also have a challenging macroeconomic environment, extremely low yields, very volatile markets and a shift of transfer of risks to the individual, which you can see in the chart below in terms of the DB to DC shift over the last few years, heavily driven by pensions freedoms.

M&G Pru got a very strong traction in that market today. So our U.K. customers, you can see the growth both across the customer solutions and also the funds that we deliver. Both of those have shown very strong growth in the last nine months. Across Europe, you can also see the strengths in the growth, where the M&G footprint has been extremely strong and there's great opportunities for growth.

And again, our institutional business, which is a mature business but has shown steady growth over the last 15 years, with very strong customers both in the government and the pension schemes. And I'll talk a little bit more about that later on.

So in terms of our growth strategies. For our U.K. customers, we have a very deep product-levered proposition with the PruFund. And it's been extremely successful. But it is a very deep product proposition. And what we're looking to do is broaden that, broaden our distribution reach, broaden our proposition and diversify the wrappers but also the -- extending the investment proposition, leveraging the investment strengths of M&G. We're very strong in terms of pension transfers and cash transfers, driven by the smoothing and the diversified multi-asset investment solutions that the PruFund offers.

The brand strength across both M&G and Prudential is phenomenal and very complementary. Those will provide excellent opportunities for growth in the U.K. market. Across Europe, we built the SICAV offering that Anne will talk about in more detail in her presentation. That was predominantly to address Brexit but also broadened our proposition across Europe.

We also have a significant opportunity to expand the reach of our wholesale relationships. We're very strong in countries like Italy. But if you look across the European market, we have a good footprint but a great opportunity for growth.

Leveraging the insurance capabilities, a lot of our insurance companies in Europe are still embedding some of the changes in the regulations dealing with the challenges of guarantees and the decline. And M&G's proposition is phenomenal in terms of addressing some of those insurance search for yield.

Then on the institutional business, we offer a differentiated and flexible proposition. We develop products alongside our clients as a key USP. We have strong, deep client relationships. And we look to deepen those.

Now just jumping down into the U.K. customer and giving you a little bit more detail around the customer base. A couple of facts I just want to pull out from this slide. On the savings and retirement solution customers, which is effectively all of the Prudential book that is open to new business, you can see we have a very high average case size compared to what's typically seen in the market. That again is driven by the strengths of the business, both pension and cash ISA transfers were big drivers to way those pot sizes are so significant.

We have launched the digital experience through MyM&G focused on providing simple investment solutions for our customers. In late 2016, we launched the retirement account.

That has been phenomenally successful with both the flexibility and the access to the PruFund. And what we'll be looking to do is extend that across the full range of tax wrappers.

Then across our more traditional products, we have been enhancing the customer experience. We launched MyPru a couple of years ago and see continued traction in terms of our customers logging in and being able to access information about them. But as Miguel will talk about, we are looking to transform the experience for our customers and advisers by utilizing leading technology. And that is across all of those customer bases recognizing that the new propositions and the opportunity to be much deeper and richer is greater than what -- the traditional book, where you want to give customers access to the data but not necessarily all the complexity of the products.

Behind this is our customer philosophy. Fundamentally, this is about delivering good customer outcomes. We have to recognize that the old approach of selling a customer a product, making sure it was fit-for-purpose appropriate, we understood the risk appetite is no longer appropriate in the current world. People expect us to be there to support them throughout the lifetime of their product and their proposition. And you cannot deliver that without a digital infrastructure to support it. Customers that we all -- we require help with the decisions that we make. They're complicated. We need transparency. And our attitude to risk changes over time. We need to deliver that using the different channels that we operate, whether it's face-to-face advice, whether it's through web chat and guidance, all for our mobile devices. Right now, the strengths of M&G's investment solutions, their strong investment performance and their innovation is the backbone to being able to extend that proposition. And the PruFund fits a massive sweet spot in terms of post pensions freedom environment.

Now just looking at the channel mix. Three of the funds that we sell through M&G, we work with advisers by platforms, the wealth managers and banks. And you can see, in terms of the growth flows, the strength of flow is from that distribution channel.

We also work with the intermediaries on a kind of direct product approach with customer solutions, where we're leveraging the investment capability both with the PruFund and the funds that M&G offers.

And thirdly, we have a direct-to-customer franchise, both through the advice channel in terms of Prudential Financial Planning that I'll talk a little bit more about, together with MyM&G and the direct channel within the Prudential brand.

And you can see the strength of flows that we've been able to deliver across that broad range of distribution channels. The brand is a key strength, both the M&G brand and the Prudential brand. They're very complementary. And the Prudential brand is much more around heritage, strong retirement brand, resonates within the mass market and mass affluent; the M&G brand is much more focused with the investment and the sophisticated investor, very complementary. And we intend to leverage both brands, taking the business forward.

And just giving you a bit more into the Prudential Financial Planning business. This business was set up just over five years ago as others were pulling out of the advice market. That enabled us to recruit talent and grow the business quickly, as you can see from the chart on the right-hand side. What we've also been able to do is leverage that through referrals to expand outside of the Prudential customer base. So this business was set up to focus on the direct customers that Prudential had acquired over a number of years and provide them with ongoing advice to meet their needs. On the right-hand side, there are some examples of the digital developments that we have done. The top 1 is around productivity and lead management for the PFP business. Then as I've talked about, MyM&G, which was launched earlier this year. And MyPru as a tool to help our customers manage their existing policies.

John talked about the sweet spot that we've identified when we've been looking at our relationships across the intermediaries. You can see on the left-hand side that M&G has quite a broad range, a footprint across the different types of advisory firms, whether it's the networks or it's the specialists from an investment pension and wealth perspective. From a Prudential perspective, we're very strong in the networks. That fits with the products and the PruFund. And you can see on the chart on the right-hand side, what we've identified is places where we have a strong footprint, both from a Prudential and an M&G perspective. And an opportunity to leverage that further. And you can see that translates into current flows of about GBP 3 billion and just under 700 IFAs. This is the start of the process. We will expand out as we work with these relationships.

Now I'm going to go a little bit into Europe and institutional. So from a European perspective, you can see the growth. This is a footprint that's being developed over 15 years of consistent growth. Italy is obviously a big stronghold in terms of the GBP 15 billion of assets under management. But if you look across the different territories and recognizing the sizes of these markets, you can see the opportunity that presents itself. We have a small but growing business in Poland. And we are looking at the opportunity around with-profits, the PruFund and the utilization of the distribution that we have in Europe and how we can match those together.

From an institutional perspective, again, you can see the strengths of consistent growth in the chart and the middle. Our clients are predominantly pension schemes but also banks and insurance companies. This is all around the strengths and alternatives and the investment proposition around yields together with the emerging market and multi-asset propositions, which Anne will talk more about in her presentation.

So in summary, we believe we have a strong platform for growth. There's strong market demand. We have a very strong distribution footprint and a significant customer base. We do need a step change in our customer focus, driven by the market and what our customers expect and their needs. But we have 2 very strong complementary brands.

And I'd like to now hand over to Anne, who will cover the investments and the investment proposition that is fundamental to us delivering on the customer and our distribution.

A - Anne Helen Richards {BIO 4145347 <GO>}

Well. Good morning, everybody. And Clare, thanks very much for that introduction.

So when I stood here a year ago, I talked about how we were developing our investment capabilities to take advantage of some of the structural changes that were still going on in the industry and how we wanted to become much more agnostic about how we take those capabilities to market. So we should be able to offer an investment strategy in a whole range of different ways, whether it's through a segregated mandate or an OIC or a SICAV or a closed-ended fund. And whether we're taking that direct to a customer or an institution or through an intermediary or wrapped into an ISA or a pension. So we should be able to offer all of these things through a whole range of different customer channels, direct advisers platforms, institutions and across a range of different geographies. So we're not just the U.K. business. But we're a European business and further afield.

So we talked last year about creating that single investment engine with the broad distribution strength on multiple levels and multiple axes and then underpinned by a really strong operational platform, a simple operational platform, which could drive down our unit cost of manufacturing.

So Clare has talked about the customers and the distribution side of things. Miguel is going to talk about the operational side of things and the transformational journey that we're on to deliver that lower unit cost. And I'm going to talk about the investment engine that sits in the heart of that process.

So over the next few slides, I'm going to cover, first of all, a bit about our capabilities; secondly, a bit about performance, our annual report card, in a way; and finally, how we go about developing a new proposition for those customers and clients that Clare has talked about. Now all of this is against the backdrop of those structural changes we touched on last year going on in the industry. So the trend towards private assets, the search for yield, absolute return, multi-asset investing, impact investing and so forth. There's lots going on; lots of challenges. But a huge amount of opportunity for us.

So let's start with our investment capabilities. So for total of GBP 337 billion of assets under management, around about 60% of that is in multi-asset form, multi-asset strategies, which is a combination both of dedicated pooled multi-asset vehicles as well as allocated sub-strategies of the Pru Life business. And we cover the full range of public to private assets, from equities, fixed income, real estate, infrastructure, all the way through to direct lending and other forms of alternatives. But you probably get a better picture of what we do if you drill down through that 60% multi-asset strategies to the underlying portfolios that sit beneath them that we allocate to. And here what you can really see, if we pull out of that, is the depth, in particular, of our fixed income expertise, which includes what is really market-leading credit analysis. And of course, the little multi-asset segment that you see in there is -- reflects our flagship pooled products on the multi-asset side, which includes both the very strongly performing M&G episode and allocation fund ranges as well as this hugely important and highly successful PruFund range, which I'll talk more about shortly. So we do really cover the waterfront from equities through fixed income and private assets in terms of the capabilities that we have in-house.

Now moving on to investment performance. Last year, for those of you who are here, you might remember I talked about the fact that in investment performance, there is always an element of cyclicality in how you perform. And one of the things that you have to do when you're managing an investment management business is figure out what you can and should change but also when you need to back the conviction of your team's judgment. And I hope when you look at the performance, I feel that we've kind of got the balance of that right over the last year. We've made some change. But there's been plenty of continuity to allow those conviction views to come good in the market.

So last year, we were able to talk about some green shoots of recovery and investment performance. This year, if you look at the performance, the quartile rankings, which I'm showing here, of our open-ended funds, I hope you'll agree that it's a pretty positive picture, whether you look at by number of funds or, possibly even more importantly, by the assets that we actually managed in those funds. And I'd particularly highlight the column on the right-hand side of that page, which is since fund manager inception. So a really good strong performance, I think, by our fund managers on a net of fee basis here.

Now Clare mentioned this. And I'll actually leave it to Miguel to talk about this in a little bit more detail. But many of you will be aware that we do have a lot of European customer money in our U.K. deep domiciled funds. So a response to that was to create a Luxembourg SICAV umbrella. And what that will do is it will give us the flexibility, if and when we need it, to help us manage our client money as we see the unfolding of the negotiations that are currently underway on the whole Brexit situation. But Miguel will touch on that a little bit more when he comes up just after me.

Now on the institutional side, that is institutions that are external to the Prudential group. I have been wrestling with how to present to you in a meaningful and a succinct way the overall shape of the investment performance that we're delivering for our clients there because the challenge for us is that, actually, a large proportion of the mandates that we manage for institutions are not measured against a benchmark. They could be an IRR over the life of a fund and/or it could be on a hold-to-maturity basis. So it's quite difficult to think how we can wrap all of that succinctly into a single measure and not yet managed to do that. But what I'm trying to do here is to show you, first of all, we've got roughly 1/3 of our institutional assets which have a peer group ranking. Now in common with normal industry practice in the institutional space, these numbers are gross of fees; they are not net of fees, unlike on the open-ended funds, which I showed earlier. But you can see roughly 2/3 of the assets that we manage for clients that are benchmarked in this way are above median.

The next snapshot is trying to give you a little bit more granularity by different investment strategies. And what we're showing here is a number of different strategies, the flagship funds that we have in each of those strategies. On the left-hand side of those bar charts, you can see our -- one of our Infracapital funds, where we're showing accumulative IRR, again, hopefully, you'll see that's a pretty strong number. Then the other bar charts on that page will show you the individual flagship fund performance on an annualized basis relative to the benchmark over three years. But again, it's a robust picture of performance.

Now as I did last year, I want to give you 2 real-life examples of successful strategies that we run, that where we think we managed to combine both our very strong investment capabilities with a very clear customer need because that is the sweet spot that we're looking for in terms of the proposition that we offer.

So the first is our flagship open-ended fund, the Optimal Income Fund. Now Richard and the team of more than 20 investment professionals have been running this fund since its inception, which is a little bit more than 10 years ago. But the key to its success has been that it meets a real customer need. It gives both income and capital growth to customers who want to yield but they do want to see some capital growth from the money that they're putting to work regardless, effectively, of market conditions. Now performance has been extremely strong since the fund's inception. It's something like 7.5% annualized. So it's more than 10 years, after fees, over that period. You can see on the right-hand side, as was very well documented, that it had a slightly trickier period towards the back end of 2014 and into 2015, which is one of the reasons that M&G went into net outflow, particularly in 2016, which we talked about a year ago. But as you'll be aware and as you've seen from the flow figures we talked about this morning, we've had a really strong recovery both in terms of performance and, of course, then in terms of net inflows. So the net inflows into the strategy year-to-date are not far short of GBP 4 billion. And the AUM in the strategy is now over GBP 20 billion.

Now one of the reasons it's successful is based on the fact that its structure is very, very flexible. It can take advantage of opportunities in the bond market regardless of where we are in the whole market cycle. So it can move up and down the duration curve. It can move up and down the credit curve. It can move into equities if it wants to. So it's a truly flexible fund it's very well structured. And it's backed by a great team.

The second proposition which I just wanted to highlight you today -- to you today is the one that Clare mentioned already in terms of the PruFund. What I'm showing you here is one of the key funds in our PruFund range. PruFund range has 6 funds within it. This is the PruFund Growth Life Fund. It's a multi-asset fund. But it has the added advantage that it's able to use the strength of the inherited estate within the with-profits fund to smooth the investment returns. So it delivers a much more stable, long-term journey for customers by taking out some of that short-term volatility that comes through from market returns. And here, you can see the investment returns year-by-year and then cumulatively overlaid by that smoothed path, which is what the customer actually received. So it's had great success this year both in terms of performance but also in terms of flows, really acknowledging the fact that this meets that real customer need.

Now over the last five years or so, the assets under management of the PruFund range has grown to around GBP 32 billion. This year, we've seen GBP 8.4 billion of gross inflows; about GBP 6.6 billion of net inflows. And the PruFund range assets in their entirety are about 1/4 of the total life fund assets of some GBP 126 billion invested, as you can see, in a highly diversified portfolio, which covers both the multiplicity of different, for example, equity or fixed income strategies but also covers both public and less liquid private assets. So it's a real strength of our combined entity that we have this strong fund, highly diversified in terms of the way that it's invested.

And when you look at how that with-profit fund has performed. And I would highlight the number at the bottom over the last 10 years or so, you can see over 10 years, it's up cumulatively something like 84%. So delivering really strong performance for policyholders.

Now Clare has talked a lot about customers. I'm also touching on customers. But I think a key part of our success hinges on our ability to anticipate customer needs and then to develop the new products, the new investment strategies and propositions to meet those needs. And so the components of what we are doing is, first of all, actually identify the need, put yourself in the customer's shoes, what is it that they need us to do. And then think about how you can combine that with some of the great ideas that come out of our investment teams to construct the portfolio that can actually deliver on that need. Now once you've done that, sometimes, the hard bit is actually how you turn that investment idea and that customer need into a tangible portfolio. And that is where seeding portfolios can act as a real accelerator to getting these things up and running.

Underneath the 3 boxes that you can see there are some very live ideas, very live examples of things that we have been able to bring to life in this way this year. First of all, the search for yield, which is such a driver in this QE world that we're still in. We've got 2 very different examples there, things that we've brought to market: on the -- in the infrastructure side, Infracapital Partners 3 fund; but quite a different but nonetheless also very, very compelling offering has been what we've done in the floating rate high yield space, the Floating Rate High Yield Solution Fund, which we also got up and running this year.

But then on the right-hand side at the bottom, you can see one of the other big themes that we're seeing going on in markets at the moment is this drive towards more impact investing and, again, examples of 2 very different funds that we've brought to market this year: first of all, the High Yield ESG Fund, which was the first type really -- fund really of that type to go live to market this year; but also the Impact Financing Fund, which is a private debt fund really focusing on investing in a way that has true societal and environmental impact in that space.

And in fact, our most recent success has been the announcement this week that we've reached a hard close, a GBP 1.25 billion, on our newest infrastructure fund, our Greenfield Fund. Now just going back to thinking about how we're matching a customer need with an investment capability here. So this is a fund for very long-horizon investors. And it provides stable inflation-linked returns through investing in a portfolio of greenfield assets that could be everything from green energy to health, to high-speed broadband. But it was made possible because the fact -- because of the fact we were able to seed the fund through our own balance sheet, which then facilitated a very successful external capital raise. So this is a strategic objective for us to accelerate our ability to innovate. And our seeding portfolio has increased from about GBP 79 million last year to GBP 193 million this year across a range of new funds, that you can see listed on the right-hand side, across a full range of different types of asset classes.

So in conclusion. Clare took you through the range of customer channels that we have available to us to distribute our investment capabilities. And what I hope I've left you with this morning is some sense of the breadth of those capabilities; the quality, as shown by the investment performance, will always look like that. But it's nice to stand up here when it's looking good. So thanks to the fund management for that; and how we're able to continue to create new propositions as customer needs evolve and be very much led by those customers; and finally, how we can use the combined strength of our balance sheet to support and accelerate bringing those new ideas to market.

So with that, I will hand over to Miguel, who's poised waiting in the wings, to talk about what he's up to, to transform our operational platform and bring down that unit cost of manufacturing. Thanks, Miguel.

A - Miguel Ortiz {BIO 1897674 <GO>}

Thanks, Anne. So I'm going to skip over that slide. So John has talked about the vision -- his vision for the M&G Prudential business. And Anne and Clare have highlighted a number of opportunities that we have in the business. I'm just going to spend a few minutes to talk about the merger and transformation process that we're going through at the moment, which is all geared towards delivering -- making that vision a reality and delivering on all these opportunities.

I'm going to start with where John started off today. So right at the beginning on his first slide, John talked about 6 ways in which we need our business to become different in the future. And I'm going to take a little walk through each of those because we see them as really important themes that we're going to be repeating to you over the end to our own stuff over the next few years. So just would quickly talk about each one.

Customer-centric. We see customer-centric as being absolutely the heart of everything that we do. And it drives our strategy. Why is that? Because we believe that we don't just sell products to our customers, we sell solutions to our customers. And if we want to keep doing that, we need to stay relevant to them. We need to get closer to them. We need to make sure that we're delivering things that they truly value.

Simple and efficient. So efficiency, again, is absolutely the core of what we do. We know that we need to become more efficient, lower cost in order to deliver better value to our customers, to compete in the external market. And the way we do that is by being simple. We're a very complex business occasionally. And we know that wherever we simplify, we create opportunity for ourselves. And so simplicity has been the mantra that we're bringing to our transformation.

Which links very closely with the point about being delivery-focused, which John called out earlier on. So the way we're approaching being delivery-focused is we're taking what is a pretty large transformation effort, which we're going to break it down into a series of independent chunks. We want those chunks to be as distinctive as possible. So the delivery of those chunks can be done independently. What does that mean? It means that we minimize interdependencies between different initiatives. It means that we're able to explain those things very clearly to our staff and to people in the external market. It means that we have clear accountability for each piece of change sitting with a specific business executive, which is a very important change to the way that we have done things in the past. Another thing about being delivery-focused is learning to work effectively with partners. So our view is our partners have got a lot to offer us. And they need to be an integral part of this journey. We want to work with large partners, who have got established solutions that we can take off the shelf. And we want to work with smaller partners, who can teach us new skills, who are more agile, who are more innovative than we are.

Fast-growing. So as you probably got a sense from Clare and Anne's presentations, we don't have a challenge here in terms of demand for our products. Our biggest challenge is to be able to scale up to meet the demand that we are facing from the external market. And what we need to do is build the operating model, build the platforms that can take this business on at the rate and in a way that our advisers and our customers expect.

Digitally enabled. So I imagine that every presentation you go to these days talked about digitally enabled. We probably haven't talked about it as much historically as other people have. But that's not because we've been asleep at the wheel. We've been spending a huge amount of time investing in capabilities to make this a reality. And what we're finding is that we can attract terrific talent in the U.K. and in Europe to this space. People really, really engage with our transformation effort. And this, because it's so much in the core of what we do, is, I think, very compelling to people who've got these skills.

Then finally, capital light. So again, everything that we are manufacturing at the moment is -- and selling for new business pretty much is capital light. We see a lot of opportunity to expand the range of our capital-light products. And we need to create the environment in which we can do that.

Finally, we got some words on the right-hand side to describe the ambition that we have for our transformation. We want to become the best-loved and the most successful savings and investment business. That's a lofty ambition. But we think it's the right ambition. And it sets the right tone for the way that we want to approach this market.

So as you're all aware, we've got a merger and a transformation going on at the same time. And our approach has been to try and bring those 2 things together under 1 structure. There are strong interrelations between the way that we want to transform the business and bringing the 2 businesses together. John, Clare and Anne have made reference to that in different ways. And a lot of the same people are involved in trying to push those 2 agendas.

On the left-hand side, you see the merger activity that we've got going on. I'm not going to say a lot about that today because, to be honest, I think it's pretty self-explanatory. We've got a number of initiatives going on across each of those different areas. We're on to our second set of sprints, trying to work out what the future operating model should look like, how we get -- turn those opportunities into reality. All of those teams have got joint M&G and Prudential people leading them. And the teams are working terrifically together. It is the smoothest integration that I've been involved in.

In terms of the transformation workstreams, you see on the right-hand side some examples of transformation workstreams. I'm going to talk about some of those in a little bit more detail in a moment.

This slide gives you a sense of the timetable for our merger and transformation. I think the main thing to take away from this is that by 2020, by the end of 2020, many of our major initiatives will have completed. We still got some things in fly. By the end of 2021, we've pretty much finished things. But we expect the old transformation program to run out over a longer time frame just because of the complexity of some of the things that we're involved right at the tail end of that.

If I talk about the financials related to merger and transformation for a second, we made a commitment to the market. Mike and John stood up and talked about the revenue growth and the cost savings that we will capture from merger and transformation. The commitment was GBP 145 million of pretax cost savings delivered by the end of 2022. Our expectation is that we will deliver the majority of that on a run-rate basis by the end of 2020. But clearly, as you saw from the previous slide, there are a number of things that will continue to dribble on beyond that. And we stick to that commitment of having everything achieved by full year 2022.

To give you a sense of where those savings are coming from and where we're investing, it's a mix of new business and in-force modernization and then transforming our support functions where, clearly the merger, plays an important role.

In terms of new business, what we're trying to do is build a scalable fixed-cost digital platform. And our goal there is try and put on business that has low unit cost as we possibly can so that as our other business grows, our cost base is staying more or less flat.

On the in-force side, we want to do pretty much the opposite. We want to variablize our costs as much as possible so that as that business runs off, then the costs are running off with it.

And you see on the right-hand side a very rough split of where the benefits are going to come from across back book modernization, new business modernization. Then our function transformation, not surprisingly, the investment is split on more or less the same lines.

So I'm just going to canter through a series of slides that give you a sense of some of the initiatives that we've got ongoing at the moment, some of which are relatively new, some of which have been going on for a long period of time.

So the first one is the transformation that we're doing at the front end of our business on -- in the U.K., which we call our U.K. retail savings transformation. This is a transformation in the part of our business that is very high velocity. It's got a lot of engagement with customers with advisers. We're taking a lot of new business. And so it's very important that we're able to deal with that in a digital way. And this applies as much to the M&G

business in the U.K. as it does to the Prudential business. So we are taking an integrated approach to addressing this opportunity.

What we're doing to support that is we're building a single digital layer that can support customers, that can support advisers regardless of the channel they come in through. We're doing that with the terrific team that have got experience of doing this in other organizations. We're not doing it for the first time. It's pretty standard to do this. If you go across on the financial services organizations, it's pretty rare to find an insurance company or an asset manager that does this well. And we are also building a new set of capabilities to help us to deliver this. We're approaching it as a digital business. We're approaching development in an agile way. We know that may need to experiment, we need to fail fast, we need to test and learn. And this isn't something that we're doing off the side; this is an approach that we're taking absolutely to the core of our business.

In-force modernization is about taking a series of legacy systems and consolidating them into a single platform. We are going to do this partly for the cost benefit that we get from doing that but also partly from the benefit that we get in exposing the customer data that we've got within all these systems and the financial data that we've got in these systems. And what that allows us to do is to give our legacy customers access to the digital environment that I talked about before. It also allows us to modernize a lot of our internal processes. And frankly, we see a lot of benefit from exposing this data and then having data-led processes rather than manual processes.

Switching gear a little bit to something that we are well on the way to delivering our European funds platform. So both Anne and Clare made reference to this. Not surprisingly, following the referendum, we reacted pretty quickly to create some optionality for us. None of us know quite how this is going to turn out. But the referendum was in June 2016. By December, we'd already launched our Luxembourg funds platform. We did it three months. I think that's pretty much the quickest that anybody has managed to achieve something like this. And what's important to me is we did it while we were trying to do a load of other things transforming the business, which I think demonstrates that when you do separate things out, when you do them as a discrete package of work, you can do things extremely quickly. And that is our approach to everything. We're not going to let other things slow down key initiatives.

Another example that has been referred to earlier and that both Guy and Nick referred to is the implementation of the Aladdin platform. So Aladdin is important for us as an example of an area where we can partner with an established player, who has got capabilities that we should be leveraging and where we're buying an off-the-shelf solution. And we're not heavily customizing that off-the-shelf solution; we're adapting to the way that it should make us work rather than the other way around. This is something that has allowed us to halve the number systems that we work with in the U.K. It's a project that we've developed alongside our partners, our colleagues in group digital. Al-Noor Ramji and I work very closely together on a bunch of things. And this is a good example of where we have done that together.

Then finally, let me just talk about culture. Culture is always at the heart of any transformation. It's clearly also at the heart of any merger. The thing that I've been really positively surprised by since I joined was how much energy there is to transform the business. Whenever you talk to people within Prudential, within M&G, with M&G Pru, what you find is that there is a huge amount of energy around the why. People get the market opportunity. They get the fact that we need to change in order to do that. And there's also a huge amount of interest around the how. We've had pockets where we've delivered things extremely quickly, extremely well. And everybody wants to be a part of that. And we're going to tap into that energy. But as we know, we can't be complacent about that. Having the right mindset is absolutely critical to getting a transformation to work. And we're putting a lot of energy into taking people on the journey around why we're doing what we're doing, what it is that we're doing, making it simple and then talking about the how and making them a part of it.

I'm going to hand over to Grant now.

A - Grant Robert Fairlie Speirs {BIO 16272300 <GO>}

Thanks, Miguel. Good morning. So my colleagues have already provided you with an overview of the current position of the business as well as an insight into the size, scale and breadth of M&G Prudential. They have also talked about the opportunities and some of the challenges that we face. However, it is important to emphasize that we're approaching these changes and challenges from a position of considerable financial strength. If we continue to execute across our strategic objectives, which my colleagues have already talked about, we will grow revenue, we will improve the efficiency of our operating model. And we utilize capital efficiently.

As you have heard from Anne and Clare, we have large and extremely well-diversified customer groups and deep-seated investment expertise across the entire range of asset classes, all of which is highly complementary when it comes to the generation of cash and profits. These are the 2 key financial metrics that I'll focus on today. We will share other KPIs with you in future periods.

In terms of how profit and cash is generated, on the one hand, we have a significant number of U.K. customers and traditional savings and retirement offerings. This enforced book of business is extremely large, some GBP 150 billion as at 30 September 2017, highly persistent and sufficiently mature that through to the continued careful management of costs, capital and asset mix, M&G has the -- M&G Prudential has the ability to generate significant and predictable profits over the coming years. On top of this, you can add the fast growing PruFund proposition, which exhibits a lot of the same characteristics from a profit and cash perspective.

On the other hand, the business also has significant scale and diversity in unwrapped investment funds and institutional products. These investment products require very little in the way of capital support and the payback from a profit and cash perspective is, more or less, immediate. As at 30 September, M&G Prudential had around GBP 154 billion of assets in these types of investment propositions.

Although the flows from these customers are less predictable and can be quite lumpy, the business is very well positioned to continue growing through the distribution of current and new capabilities to our existing and expanding customer base in both the U.K. and Europe. The combination of stable in-force business and fast growing capital-light solutions means that the M&G Prudential has the ability to generate sustainable profits and remit cash to our shareholder whilst still growing as a business.

And the past nine months have been very strong from a growth perspective. PruFund continues to perform very strongly and has had a record net inflows of GBP 6.6 billion through September 2017, highlighting the ongoing appeal of the outcomes delivered by this proposition. These strong inflows more than offset outflows from other more traditional propositions.

The improved investment performance across the U.K.-domiciled fund range and continuing strong investment -- institutional fund performance, as highlighted by Anne, has also led to growth with M&G gaining GBP 9.9 billion of net new business in the year through September compared to outflows of GBP 8.1 billion in the same period in 2016. What is particularly pleasing is that these inflows have been across a wide spectrum of different capabilities, covering equities, fixed income, multi-asset, real estate and alternatives. The flows experienced by M&G Prudential in the U.S. so far compare very favorably to those of our U.K. peers. These flows, combined with the positive market impacts, has resulted in assets under management reaching GBP 337 billion as at 30 September 2017. So in summary, M&G Prudential is a well-diversified business with considerable scale that has generated significant levels of cash and profits in the past and is well positioned to do so into the future.

And with that, I'm going to hand over to John for a few closing comments.

A - John William Foley {BIO 4239156 <GO>}

Thanks, Grant. And thanks, everybody else as well. Look, this merger is about the creation of a savings and investments business built around customers and their changing needs, a business, which is simple and efficient, a business, which uses digital transformation to lower unit costs and improve customer outcomes. We are uniquely positioned for growth in capital-light business with scale, 2 great brands and a full set of investment capabilities. And we start the merger and transformation from a position of strength.

Look, we're only three months into this merger. And in that time, we've put together a new management team. We've hit the ground running. We've developed a transformation strategy and an integration plan. But what is giving me most encouragement is the creativity, energy and enthusiasm across the teams for this merger and the opportunities that it presents.

So with that, we'll conclude the formal presentation. And I will ask my colleagues to come back upstage. And we will answer any questions you might have.

+++qanda

A - Unidentified Speaker

Okay. So we have some time now for specific questions on M&G Prudential. As before, if you stick up your hand. But if I call your name if you could keep your hand up just to make it easier to get a mic to you. Okay. So can we start with Nick?

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes at SocGen. Just wanted to ask about the annuity book and in particular, the growing debate about the risk margin. I know you use transitionals, obviously. But -- so it's less relevant to you. But is there a possibility that if Brexit leads to some dilution of the SII rules that you could become more annuity friendly and less eager to divest your annuity book?

A - John William Foley {BIO 4239156 <GO>}

So Nick, I think it's fair to say that, certainly, from my perspective, we like to keep our options open for as long as we possibly can. We have no expectations in that regard. And I think we just press on as we're doing. If things change, we'll review it when they change. But I guess, that will take some -- these things never -- it strikes me, these things are never really clear at first blush. So we'll just press on with what we've embarked on.

A - Unidentified Speaker

Okay, we have Jon.

Q - Jonathan Michael Hocking

Jon Hocking from Morgan Stanley. I've got 3 questions, please. Just firstly, on the digital layer that you're building, I just wondered what the ambition was in terms of how competitive you're going to be in each of the verticals. If you look at the workplace business, the intermediary business, are you going to get to something which is generally competitive in each of those verticals? The first question. Second, I just wondered, if you look at the product that M&G is known for and the product that Pru is known for, I guess, it's similar sort of multi-assets focus. How do you actually prioritize the offer to the customer? How do you decide in which channel, in which wrapper you lead with a PruFund offering, you lead with an M&G offering? Then just finally, on the direct advice business or the advisory business, how serious are you about building that? If you look at your sort of adviser numbers, I guess, you're running at about 10% the market leaders. Is that something you can really build? Or is it just an adjunct business?

A - John William Foley {BIO 4239156 <GO>}

Good. Thanks, Jon. So the digital layer, Miguel?

A - Miguel Ortiz {BIO 1897674 <GO>}

So I think our approach to digital layer, as I outlined, is that we want to try and be focused on delivering the best customer outcomes and the best advisory outcomes that we can as we're bringing on business and as we're dealing with them. I think our first step is to meet our customer needs. And I think once we get to a strong position, then we'll review the situation. It's very hard to know how a competition's going to evolve. But I think, as I say, at the moment, our priority is to address the needs that we see out there in the market rather than to compete with anybody in particular.

A - John William Foley {BIO 4239156 <GO>}

Then product on multi-asset.

A - Anne Helen Richards {BIO 4145347 <GO>}

So the best way to think about this, I suppose, put simply, is that the M&G investment bit is the Intel Inside of the PruFund. So the majority of the assets that are being managed within the PruFund are managed by M&G. So the question is really simply what is the best way of putting a wrapper around that multi-asset capability. Some people want to buy a straightforward multi-asset fund that might have a cautious or a more growth-oriented strategy. And some want something wrapped in smooth. And that is quite channel specific and quite client type specific. So it's not a case that there's an internal competition on that. It's simply deciding what is the combination of requirements that a customer has, which will make you prefer a straightforward multi-asset fund, for example, versus a smooth PruFund type of product. So it's a simply different sort of wrapper around a core investment capability.

A - John William Foley {BIO 4239156 <GO>}

And on direct, Clare, that reports on to you.

A - Clare Bousfield {BIO 16746072 <GO>}

Yes. So I see the advice guidance, the way we interact with our customers and our advisers, being a lot more seamless than where we are today. So you're right. We've got an advice business with PFP that's in the top 10 in the market in terms of size and capability. Then, we've got a lot of opportunity to enhance the productivity of that but also leverage the advice and the quality of the advice from a broader and a more seamless approach to how we interact with our intermediaries and our customers. But absolutely, it's core to our business.

A - Unidentified Speaker

Okay. Greig?

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

Greig Paterson, KBW. Your inherited estate or (inaudible) estate of GBP 8.6 billion, I know you use it to take a more aggressive asset allocation on PruFund, which then -- and also to finance the strain, which has actually been a big asset and a competitive advantage. But I was wondering to what extent you could use that to, for instance, boost the capital in various -- in Asia or maybe the U.S. by buying -- (of then) turning intangibles to tangibles. Is that part of the agenda at some point?

A - John William Foley {BIO 4239156 <GO>}

Candidly, no. There are some very clear rules around the application of the inherited estate. And we look at various opportunities from time to time. But we wouldn't -- I think we -- from a U.K. context, we have some ideas that we may bring back. But from a international perspective, no.

A - Unidentified Speaker

Okay. Andrew?

Q - Andrew John Crean {BIO 16513202 <GO>}

It's Andrew Crean for Autonomous. A couple questions. Where does the workplace business fit in given that's going to be a low-margin scale business over time? And secondly, is there an issue -- I mean, I know you've talked about alternatives for the annuity business and one of them being whether your with-profit fund could buy into it. Is that credible given the fact it already has annuity exposure and other risks that you might unbalance them with profit portfolio by doing that?

A - John William Foley {BIO 4239156 <GO>}

Yes. Thanks for those, Andrew. So in terms of the workplace business, that's not -- that's a business that we currently have -- we get top ups. So it's not an active business for us. It will -- becomes an active business when we've managed to digitize our platform. We think there's a lot of opportunity there. But we need to do first things first. In terms of the annuity business, yes, you're right. I mean, the chances of us transferring any of that shareholder bookings to the policyholder bookings is remote. But we look at it because policyholder risk appetite changes. And that could be something that we would do. It's one of our options. But I would tell you it's a remote option.

A - Unidentified Speaker

Okay. We've actually got a question that's coming from the iPad, from the app, which is what are your views on liquidity and bond markets, particularly given the substantial size of flagship fund?

A - John William Foley {BIO 4239156 <GO>}

Anne?

A - Anne Helen Richards {BIO 4145347 <GO>}

Bond markets are big and liquid. And there are obviously different challenges at different points in market cycles. But when you look particularly -- different points in the market cycle. But when you look particularly optimal income and the flexibly that it has in the way in which it's -- whether it's a number of different market conditions, we're pretty confident that it has the levers within the fund to be able to take advantage of different phases in that bond market's cycle. But obviously, with a big fixed income business, we do stay close to a lot of the things that are going on underneath the surface in that. And the key thing is to make sure that the client demand and the proposition that you're offering, you don't have that underlying liquidity mismatch.

A - Unidentified Speaker

Okay. We have Arjan.

Q - Arjan van Veen {BIO 5197778 <GO>}

Could I just ask one question on the cost savings, GBP 145 million and then the investment of the GBP 250 million? So just a bit more about it's quite a long period of time to get them out. How should we think about how they emerge? So even, over time, more back-ended and then specifically, I suspect the investment is earlier than the cost saves coming out.

A - Miguel Ortiz {BIO 1897674 <GO>}

Want me to take that? So I think the short answer is yes. So as with any program, we're going to need to invest in order to get cost savings out. As I said on the slides, the majority of these programs will complete by the end of 2020. So I think, on a run rate basis, we'll be close. But we won't be all the way there until the end of 2021 to get full year 2022 benefits.

A - Unidentified Speaker

Okay. Abid?

Q - Abid Hussain {BIO 20229932 <GO>}

Yes. Just one question. Can you just briefly talk about how you can realistically variabilize the cost base of the in-force book? A simple solution seems to me to be just disposing more of the legacy assets.

A - John William Foley {BIO 4239156 <GO>}

Miguel?

A - Miguel Ortiz {BIO 1897674 <GO>}

Yes, I'll take them. So I think there are number of ways in which you can variabilize the cost space. So typically, what people do in our industry is they work with partners to do that. We see industry utilities starting to establish themselves (and plea) the more utility that you've got in the market, the easier it is to variabilize. I think in terms of disposal, that scale is very important and very valuable to us. And so for the time being, our plan is to continue to leverage that scale.

A - Unidentified Speaker

Are there any other questions? Oliver?

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Three questions. First is I appreciate you've set up the Luxembourg operation now but you did see some significant outflows from the European funds or the European money after the Brexit vote. So if we have a hard Brexit, what sort of comfort do you have that it -- that having that Luxembourg operation is sufficient? Or is the fact that you're a U.K. fund manager actually just got a bit of bad news for you? Second, what percentage of your annuity, your shareholder annuity liabilities or assets are in illiquids? Then thirdly, I don't know if it's appropriate now to talk about the remittance up from the U.K. or whether that's something for later on. But I think you said that the U.K. remittance would not be affected by the restructuring charge. But I think I also heard that you were putting the restructuring charge into the operation profits of the U.K. business. So I'm just wondering if that's something you want to comment on.

A - John William Foley {BIO 4239156 <GO>}

So take the third one, first, Oliver. We'll cover that one later when we do the group session. In terms of the Luxembourg issue...

A - Anne Helen Richards {BIO 4145347 <GO>}

Yes. So I mean, nobody has a perfect crystal ball on that. The knee-jerk reaction immediately post the referendum result was quite a visceral reaction on part of some of the customer base, combined with a reaction to the very sharp reaction -- fall in currency, I think. I think it was quite a visceral response. And actually, we saw those funds stabilize and go into net inflow very, very quickly. And if you look at the breakdown of our flows, we've been in significant net positive flows from the non-U.K. customer base all the way through since the back end of last year. So that gives us some comfort that we're kind of through that initial visceral reaction. And clearly, having got the umbrella up and running, the next important piece of the work is to make sure that, as the conversations between London and Brussels evolve -- nobody really knows at this stage where we're going to be in the equivalence delegation market access point of view. But we've got the flexibility to work with the customers and to be led by our European-based customers as to what is the right shape. And it may be that some will continue to hold to U.K. OIC and not be concerned about it. But that we've got the flexibility to move the assets through a set of parallel fund structures in whatever way the customer base wants us to do it. So by putting the SICAV, getting the SICAV up and running, we've now got that flexibility. And what we're in now is that ongoing conversation. So we've got a little bit more clarity on time lines now with the result of the government's various comments over the last week or so. So we know what we're working towards. We're pretty comfortable with the plans that we've got in place. Can't say with absolute certainty that the scenario won't repeat itself. But it wouldn't be our current working assumption.

A - John William Foley {BIO 4239156 <GO>}

And as for the annuity illiquid question, I'm afraid I don't have that information right off the top of my head.

A - Unidentified Speaker

Okay. Gordon?

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken from RBC. Couple of questions please. First, on the merger. The model in the U.K. in recent years has been to separate out asset management and administration.

There are companies who still do both. But there's really very little overlap between these 2 businesses and very few synergies. Just wondering why you're going down a merger route and everyone else just seems to be going the opposite direction. And the second point on the annuity redress program, are you happy with the provision that you've set up? And is there a likelihood of a fine coming?

A - John William Foley {BIO 4239156 <GO>}

Clare, will you take the second one?

A - Clare Bousfield {BIO 16746072 <GO>}

So on the annuity program, the program that we're operating is running according to the projects and our expectations. As Mark commented earlier on, we're working closely with the FCA around the redress calculator. We'd expect to give an update as part of the full year results announcement.

A - John William Foley {BIO 4239156 <GO>}

Okay. Anne?

A - Anne Helen Richards {BIO 4145347 <GO>}

Yes. And on the first one, it's an interesting question. I think the picture that we've tried to paint for you today, I think this idea of the administration, I'm not quite sure what that means. What -- for us, what we have is more than 7 million customers in the U.K. and of course, a broader distribution footprint beyond just the individual customers. These are all different people, different institutions that have a need. And I don't think -- if you think about the manufacturing of the investment offering and the customer base, I don't think separating those makes a lot of sense. We're no longer insurance business. We're a savings and retirement business. Whether that comes from what might have been traditional U.K. life type of offered products versus what you traditionally have in asset management business, to us, they're converging. So to me this is -- these are -- this is one business with multiple different roots to accessing customers and to meeting customer needs. And that's the vision that we're trying to paint here. So I sort of don't quite -- yes, that's my reflection on that.

A - Unidentified Speaker

Okay, we have time for one last question. There's one? No? Everyone's keen for more coffee. Okay. So another 15-minute break. So if we can be back at 10 to 12.

(Break)

+++presentation

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

Good morning. I think we still have 5 minutes of morning left. Always a pleasure to have the opportunity to talk to you about our business in North America.

Everything that we say today sort of grounded in the fundamental premise, something about which we are deeply convicted, that is the principal product that we sell, variable annuity written with living benefit guarantees, is an incredibly virtuous product and a product that is uniquely useful in the environment in which most pre-retiree and immediately post-retiring Americans find themselves. Generally speaking, they are undersaved. They have few places to turn that will allow them to generate a stream of income on which they can fund their retirement while also offering them the opportunity to grow their asset base. So the product is genuinely unique.

So you think about our product in that way. And then you look at this slide. And there seems to be something of a disconnect, because we've got this very virtuous product. We've got 27 million baby boomers. So approximately 1/3 of the baby boomers will have retired by the end of 2018. There'll be another 50 million to go. Interestingly, the 27 million who will have retired by the end of next year, those -- that's the segment of the baby boom generation who are most likely to have had some exposure to a defined benefit pension plan at some point in their working life. The later you came into the workforce through the '70s and into the '80s, the less likely you were to have ever had the benefits of a defined benefit pension plan, which -- and obviously, in the absence of that plan, that even highlights the need for a product that provides a guaranteed income in retirement such as a variable annuity. And so you would look at this and you would say, well, gosh, you would expect that the sales of these products would be taking off like a skyrocket. And yet, as you can see from the red line, that has not exactly been the experience.

And there are a couple of fundamental reasons that we should talk about why are sales declining in an environment when the product is incredibly useful, uniquely useful. Two things: One is regulation, how this product is viewed by regulators and how they have interceded to add regulatory burden to a product that's already very highly regulated by both state insurance commissioners, the SEC, FINRA and the Department of Labor. Then also, the -- beyond regulation, there's a more fundamental issue with how the product is perceived by the general public. It's -- it is -- many people will tell you, gosh, annuity products are very complicated. And they're actually not that complicated. They'll say they are expensive. But when they say expensive, they're comparing a variable annuity that includes a very important, very valuable guarantee versus a mutual fund that offers no guarantee. So let's delve into some of these questions.

First of all on DOL. We talked at length about DOL when we were together about this time last year. You'll recall, we brought Secretary Seth Harris, Obama era secretary of Labor, with us to talk about the fiduciary rule and what it was meant to do. What we know -- one of the things we learned that day is what it was meant to do is not exactly what it's done because in the preamble of that piece of rule-making by the Obama administration was the suggestion that the Department of Labor strongly believes that more people should have guaranteed income products in retirement. And of course, you saw on the previous slide what the effect of the rule has been, unintended consequences.

So let's just focus on what's happened since we were together last year. Of course, there's been a change in administration in Washington. Shortly after taking office on February 3, President Trump issued a memorandum asking that the rule be looked at. And he had questions about is it limiting access to advice, is it making it more difficult to buy a guaranteed retirement income product and so on and so forth. It took quite some time for the Department of Labor to fully respond. And some would suggest they still have some work to do to fully respond, principally because of all of the different cabinet members, which President Trump nominated and which required confirmation by the Senate. The Secretary of Labor, Alex Acosta, was the last to be confirmed. So he's really only been in the seat at the Department of Labor since early summer.

What Secretary Acosta has now done, as you know, is proposed this process that has to be gone through before the -- his proposal becomes effective. But he has proposed an additional 18-month delay the full implementation of the Department of Labor fiduciary rule. That takes it to July of 2019. That's the projected effective date. We should hear very soon the -- we should complete that process. And that delay will become fully effective. But the expectation is that will happen very soon.

What we are hoping for and what we are led to believe -- and we get this from conversations both with Secretary Acosta and with Treasury Secretary Mnuchin. And both of whom we've met with on this topic. And they've both told us that they believe the most logical endgame from the government's perspective, from industry's perspective, from consumers' perspective, all aligned, is a harmonization of the fiduciary standard between the SEC and the Department of Labor. And what that would accomplish is a single fiduciary standard that would apply to all advice given to all classes of assets. When I say classes, I mean qualified and nonqualified. Obviously, that takes an enormous amount of confusion out of the equation for the typical retail consumer, who's trying to understand today why his adviser has to give him or perhaps -- or theoretically performing in different ways when he's talking about the money that I accumulated in my 401(k) versus the money that my grandmother left me as a legacy. So to simplify that will be very important.

It's also complicated. I think that's one of the reasons why the delay is 18 months, not six months or nine months because there's a great deal of work to get the agencies working together. But our understanding is that work's happening now and so we're optimistic that while there's a lot of work to be done, that we will get to the right place on this.

So this -- I mean, this has been a complicated time. And obviously, the delay and the work that's going on is a good thing. But it's still a delay. And there's still an element of uncertainty. And that continues, obviously, to mute the market for these products.

It's been a very complicated thing, obviously, for the distributors who it directs -- or it impacts most directly, an enormous amount of time and expense on the part of the broker-dealers who directly face the -- this new regulation. There have been some other consequences that are, you could suggest, are positive as well. And that is that I think it has caused the industry to focus on where we're going with respect to advise and I think, in the end, has served to accelerate a trend that was already happening. But it's made it happen more quickly. And I think, ultimately, it's a good thing for manufacturers of these products.

We talked last year about the kind of these 2 different marketplaces. There's a marketplace for advice where the product is sold and the advice -- the advisers is paid in the form of a commission from the manufacturer of the product. Then we talked about the fee-based advisory model. And there's been -- we've had an inflection point here where -- in the last couple of years, where the total fees collected exceed the total commissions paid. In the end, we, as a company, are agnostic about how advice is paid for. And I think it's -- in the end, it's up to the consumer and what he is more comfortable with. It's the conversation between the consumer and his chosen licensed adviser.

So we're agnostic. But we also know is that by being agnostic, by being willing to create products and so forth to get at this advisory market, it opens an enormous opportunity for us to talk to advisers and their customers, people with whom we've never really had any material interaction at all.

We showed you this slide last year. And it shows you sort of how much is actually out there in terms of savings and where it sits in terms of the channel, the different models for advice giving by channel. So obviously, the largest channel, the wirehouses, regional broker-dealers, RIAs and so and so forth. And what we talked about last year is the fact that most of the money is on platforms where the majority of the funds are advised based on a fee basis versus on a commission basis. And we -- again, we've never had access to those. If you look at -- again, I'll reminded, the red line shows you how much of the assets are actually invested in a VA versus the total assets. And this is a story we told last year. But it's worthy of repeating.

You see, the independent broker-dealers, the one channel where you could suggest by virtue of that level of penetration. We've done a good job, not just our company. But as an industry, we've done a good job of penetrating that channel. That's always been a commission-oriented channel. And that's -- again, that's probably about the percentage of assets that we should have in that channel, perhaps a bit more. But if you look other places where we are present, the wirehouses, the regional broker-dealers, particularly the hybrid RIAs, which tend to be populated by advisers who've generally come out of an independent broker-dealer or out of one of the wirehouse platforms and are transitioning to like an independent shop fee-basis model, we've been present but we've not been impactful.

The fastest -- the 2 fastest growing areas are those RIA channels, which were going on a fee-basis. And then the fee-based advisers within the wirehouses. So in terms of selling our products with -- that are in -- that are driven, really, by the living benefits that we attach to them, the death benefits and the withdrawal benefits, those are the greatest opportunities. And it dramatically multiplies the scale of the market that we can address.

Now you would -- one thing worth pointing out, you can look at the wirehouses and say, well, that's -- it's a gigantic amount of money. And obviously, within there, there are some high net worth individuals, ultra-high net worth individuals, who may not find that they really need the guarantees that we write. If someone's got $2 million or $3 million or even $5 million, then they're probably scratching their heads saying, "Is this really enough? Do I need to lock in some level of guaranteed income for the rest of my life to ensure I can continue to maintain my lifestyle?" Somebody that's got $25 million or $50 million invested with the private bank at a Morgan Stanley or a Merrill Lynch or Wells or whoever, they -- by virtue of their success and by the absolute scale of their assets, they've kind of written their own guarantee. And yet, there's still ways that we can be useful to him. We've -- you may have noticed in the financial press recently, we just launched our private wealth and trust initiative, which is really based upon, essentially, a fee-based version of the Elite Access product investment only. And that's a very useful tool in helping ultra-high net worth individuals direct their money as part of their estate plans on a tax-free basis. And so there are opportunities there. But the principal opportunity, again, is at this mass affluent marketplace who seek advice on a fee basis and to whom we've had very limited access in the past.

So then the question is what is it that you actually have to do in order to be able to interact professionally and promptly and efficiently and demonstrate the value of what we can do to these advisers. And it sort of falls into a few categories. You have to have the right products. You have to -- we have to change the narrative around these products, make sure that people understand what they are because, as I said earlier, one of the drags on sales is the fact that the products are misunderstood in some respects and viewed as being more complicated than, in fact, they really are. We've got to get the selling agreements in place with, in some instances, with advisers we've never had selling agreements with before. Then finally, ultimately, there's a technology dimension of this. We have to make it easier to interact with us to buy an annuity. The one thing that has always been immensely complicated is the process through which one has to go to purchase one of these products, particularly, if you view it in the context of how easy it is now to buy a mutual fund or to purchase specific securities, it's much more complicated to buy an annuity.

So this is a graphic depiction of the work streams that we have going on now. Let's talk about each of these things that I rattled off earlier.

Product. We do have to have the right product in the marketplace. I'm delighted to say we have that product in the marketplace today. So we have launched advisory versions of our core product, the Perspective II. That's the product to which we attached the living benefits. That was launched earlier this year. We also had the investment only that's been launched. The sales of those -- I wouldn't want you to get too excited. Some -- these things take a while to get tractions of the sales relative to our total sales, are still relatively small, measured not in the billions. But we -- unfortunately, we have to take a 0 off to count these sales today. So the -- but the thing that's very encouraging and speaks to the idea that there's this enormous pool of assets advised by advisers with whom we've never had relationships.

If you look at the sales today, close to 1/4 of the sales of the PII advisory product, this new fee-based product, had been driven by advisers with whom we don't do business, new advisers or people who've dropped off. They may have written for us some years ago but have -- but haven't written for us for years. If you look at the investment-only version of that advisory product, 54% of the sales are from people that have not historically sold for us. So the most encouraging trend to me is that we are meeting these people. They are finding the product resonates for their clients. And we're starting to see the flows come. And I find that very encouraging.

Changing the narrative. We've talked about this last year. An enormous amount of work has been done on this already. Jackson, as a company, is out principally with digital and print, talking about the importance of annuities. When people Google annuities, very clever ads pop up that try to, in a very simple way, outline the benefits of these products and why they're useful and try to debunk some of the myths around them. And I would just encourage you to sort of watch this space because, as we get into the First Quarter and go through next year, you'll see more and more and more activity ramping up around the value of annuities, why a guaranteed income in retirement is critical for most baby boomers. And I'm hopeful that this work is going to be very impactful. So just watch this space.

I should also point out that the work that's been done here is not limited to the consumer space, although that's very important. We've had -- we continue to meet very regularly with regulators with political leaders on Capitol Hill and within the administration to highlight the importance of these products and the unique role they're capable of playing in American retirement.

New selling agreements. So again, as we enter this new space, we have to go and sign up and authorize different advisory firms to sell these products. In some instances, they've never sold the products before. In other instances, they're some of our largest distributors, people like Merrill Lynch, who are already signed up. And in fact, for qualified money, Merrill Lynch made the decision back in June, they will sell no commission product at all. They just went cold turkey. And they're only selling product on a fee basis. So they're already -- we're already on their platform. We're already on the platform of Raymond James, of Wells Fargo. We've got 106 distribution companies now signed up with more to come. So the product is being adopted very quickly at the corporate level and is rapidly working its way down to the individual advisers.

Then finally, technology. If we have the products out there and they're easy to understand and they're compelling and the narrative is evolving and people are starting to understand that, "Hi. annuities actually seem like a very clever thing. And I should probably have one as part of my retirement plan." And if -- and when you go to your adviser and suggest it, he says, "Yes, I actually have that product right here on the shelf." Or better still, the adviser is saying to the customer, this is one of the things we ought to be looking at.

When all those things happen, obviously, sales of these products are going to increase nicely. And I'm very optimistic about that. So the real endgame is the technology link. This -- I talked about how torturous it is sometimes to go through all the paperwork to actually buy a variable annuity. When we get to the point that we've changed all this other stuff and it's actually easy to buy a variable annuity because the product is embedded in your adviser's wealth management platform, then that's the point at which, I think, the entire marketplace really takes off.

Our expectation is that this is a product line where, although it's dropped from $160 billion to perhaps as little as $90 billion in flows this year, I expect it to start quickly moving back up as an industry. And we expect the volumes, ultimately, to be higher than they've ever been before because of our proven track record, of outstanding performance, because of our clear capability in terms of risk management, product pricing, product design, because of our highly competent front end, the job we do in educating advisers so they sell the product properly. There's no doubt that we benefit disproportionately from that rise in the marketplace.

Now what I'd like to do is have Chad come up and get into a little more detail, particularly from a technical perspective, on why we are so uniquely positioned and how this plays out. Chad?

A - Paul Chadwick Myers {BIO 2234559 <GO>}

Thank you, Barry. Good afternoon, everyone. There we go. So I -- as Barry mentioned, I want to spend a little bit of time on really what differentiates us from the market. I think, since last time we met, we've had a couple more observations in the U.S. industry in terms of spinoffs and other such activities that have, I think, specifically with respect to variable annuities, kind of heightened the importance of thinking about the differences between how different companies have competed, different approaches they've taken to the market and why Jackson's been successful while others have struggled. So I'm going to spend some time on our approach to the market, a little bit on our value proposition to the consumer, which really gets back to our current sales success and then kind of a usual health of the in-force business kind of checkup.

So what I've done here is just broken down between a couple of different periods that we think about in the history of this. And so maybe repeat for a lot of people. But I think it's worth keeping in mind as we think about where we are today, where we've come from.

So just thinking about the first period of the pre-crisis era. We had a relatively steady increase in equity markets. We had reasonably high interest rates. And we had an industry that was very anxious to sell variable annuity products. There was a lot of money to be made. We got into that point really more of a price war, a feature war. We had companies who were mispricing products, who weren't doing a phenomenally great job of hedging. None of which mattered during this phase because it just looked like higher profits and higher sales. And that was all fantastic. I think what we also saw was because of some of those pricing mistakes and some of the aggressive behavior within the industry, you can see the historic high in sales that came around at that point because it was a very consumer-friendly product, a very cheaply priced consumer products. There was a lot of demand, a lot of supply. And we saw a very significant increase in overall sales.

During this point, it's important to remember that Jackson stayed focused on pricing, on our hedging. We were not terribly excited about the direction of some of the activity we saw there. And we did end up losing market share during this period of time. But we did so willingly and for all the right reasons.

We step forward to the next phase where we saw the financial crisis hit. And this is where we saw a lot of carnage in the industry. All those pricing mistakes, the hedging that wasn't done correctly resulted in significant damages to a number of our competitors. We saw a very significant kind of supply shock to the market. We saw some of the longest standing, biggest competitors out there completely withdraw from the market. Those that stayed in, on balance, were increasing prices 50% to 100% from where they were. So you had 2 things going on here with the -- basically, the supply withdrawal that came out of there and also, just the increase in pricing, a little bit less demand. We saw a drop-off in sales over that period of time. It was fairly precipitous.

Importantly here again, while others had significant issues, Jackson came through this part quite nicely. We saw, actually, a slight hedging gain throughout this period of time. So we came through this part of the crisis unscathed and in a really good position to be able to compete for sales. This is the point at which we saw both relative market share and absolute sales start to move up, even though we were on a declining overall market.

Then finally, the period we've been in for the last 6, seven years or so, where we've had this kind of relentless move upwards in equities, coupled with interest rates that have continued to drift down towards historical lows but a very good pricing kind of reaction in the market where, because there's still good demand for these products, still limited supply, there is the ability to reprice products to take into account the lower interest rates and other things.

And so we got to a period here where, very good time to write variable annuities and we saw some bounce back in the overall sales levels, basically on a trend there -- or sorry, in a channel there from about 10 to 15 until we saw a DOL come in, which Barry talked about as basically caused a fairly significant shock to the market as well with respect to the distribution side.

So again, this has been a very, very good time to write variable annuities. Unfortunately for most of the industry, they haven't really taken advantage of this opportunity over this period of time. And also unfortunately for the customers of a lot of the variable annuity products who have offered more restricted offerings that don't have a lot of equity participation, a lot of the consumers haven't been able to participate in the strong move up we've seen in the equity markets. So the other thing that's important to note here is, especially as for context for some of the blocks we see out there in the market or some of the companies now that are more VA-centric that are -- that have been spun off, is the decrease in interest rates from basically '06 to where we've been over the last several years has been hugely damaging, specifically to the GMIB writers, which the GMIBs are just more interest-rate sensitive. So that's been a pretty significant headwind for those companies. A lot of the GMIB writers back in the day didn't actually hedge the interest rate risk, or they only partially hedged the interest rate risk. So what we've seen is a pretty significant headwind for them. Again, as a refresher, GMWB has been what Jackson's written over the years, doesn't have the same level of interest rate intensity, a little more of on equity focused product and that's done quite well over this period of time.

In fact, if we look at the overall picture for the last 7, eight years or so, what you see is in the period that you would want to be writing VA, Jackson's written a lot of it, we've got cumulative net flows approaching $100 billion in the precrisis -- sorry, in the postcrisis era, compared to the industry which has been spending a lot of time trying to run off back books and get rid of unprofitable business that they've sold. And the industry as a whole, a $70 billion, $80 billion net negative flows over this period of time when you really wanted to be selling the product. So good -- again, a good difference for us in terms of the overall picture.

Moving into the value proposition and why have we been successful when others haven't? Again, going back to the precrisis period, just -- and this is a little bit of a simplified diagram but I think it gets most of the points across. If you think about what existed in the precrisis, you had 3 main products if you think about it in the axis of income and growth, SPIA or the immediate annuities, what we tend to think of. And it's just as a pure, I pay out a premium, I get a guaranteed income for life, fixed payment, it's not going to go up, it's not going to go down and I have no exposure to the markets. But I also generally have no liquidity. I basically handed over my upfront premium for a series of payments.

Typically, the highest income that you can get with your premium that point in time. But again, some of the other beneficial parts are not there. Then we had the indexed annuities which, at that point in time, were more of an investment type of product were it was more like an equity product with training wheels for the people who were a little more skittish about the market or couldn't take the risk. They would get some of the upside of the market, not take any of the downside of the market. But it wasn't an income-focused product. It was really more just focused on the asset markets.

Then we had the VA, which was a mix between the 2, with theoretically unlimited growth potential. You can invest in equities, equities can go up infinitely as we seem to be seeing over the last several years. And at the same time, fairly robust guaranteed income floors, not quite as high as immediate annuity but certainly a very differentiated product. And so that's where we stood precrisis and it was a very healthy market for the VA. You can see why this would be very attractive relative to the other ones.

If we fast-forward to where we are today, the immediate annuities are still doing what they do. What's one of the interesting developments in the market has been the indexed annuities. Most of the writers have offered now, some sort of guaranteed income protection. And they've done those at relatively high rates. It's a little bit of a strange concept to guarantee a market product that, actually where the market -- where the product can't go down due to the market. But that's really how this developed. It's more like an alternative to the SPIA with a little bit of growth potential. So effectively, you shift away a little bit of the growth potential, you get some income and you've got a new kind of -- a new place in the risk-reward spectrum there. The VA is still the VA. This is really what we sell, this is what we refer to now as investment freedom. That -- those words didn't really exist back in precrisis level because everybody competed in the same way. But VA, out to the right, same product we used to have, still have. Most of the market, in fact, maybe all of the market at this point, has moved into what we would refer to as a restricted VA. By restricted, what we're meaning is if you want access to a guaranteed income floor, what you're going to have to do is you're go into a volatility-controlled fund, some sort of control of asset type of strategy or some sort of limitation on how much equity you have, typically some sort of balanced fund. Maybe you have an option of 3 or 4 balanced funds that you can choose with one of the carriers. So because of the restrictions that are on there, what we're seeing is significant and less potential upside on the growth side, for really no trade-off on the income floor. These products are really more designed to protect the insurer's balance sheets more so than they are to provide customer value. So we've seen this movement in the market and the restricted VA piece of it, as we're calling it, has been more challenged to grow over the period, over this period of time. It's also been a little more challenged than the DOL. If you look at the market share numbers, we continue, even though we also have been hit by DOL, we've continued to gain market share during this downturn that we've see in sales due to that. I think what you also saw, specifically, this time last year there was a lot of conversation about how VA was losing market share to FIA. And as an overall market that was a true statement because under DOL, the initial thought was that FIA was not going to come under the purview of the new DOL rule while VA would. So you had a lot of people moving into the FIA out of the VA. And they were doing that because, if you think about it from our rep's perspective, if the value proposition is fairly indistinguishable from an FIA and you can shed all the compliance risk and everything else you would have to worry about there, it doesn't seem like a particularly unreasonable thing for them to do. We didn't see quite the same drop off in the investment freedom type of VA that we sell, again, because it is a differentiated offering from some of the other things that are out there in the market. So one of the knocks that we typically get, since we are kind of the lone wolf out there with the investment freedom is, well, you're taking ridiculous amounts of risk and this is not sustainable and this is going to cause you all kinds of problems. So we've -- we look at it as the equity allocation here. And this is something we've shown before in various presentations along, through the years. What this shows is our in-force allocation by equities, fixed income and -- or the fixed account and bonds. And what we generally have seen over the period of time. And this goes back 7, 8 or nine years and actually looks very similar back past that, is that a typical consumer is going to buy the product. They're going to allocate roughly 2/3, again they can allocate however they want. But they're going to allocate about 2/3 of it to equities. They're not going to do much in the way of rebalancing over time. And what will happen is that the markets will reallocate them, up or down. And what do see there is that we've been in a long bull market run. So we've seen allocations of equity drift from 70% to maybe 76%, 77% over that period of time as equities have outperformed all the rest of the asset classes. Very stable, very steady type of performance. We're not seeing the type of behavior that everybody seems very concerned about. This was our experience precrisis as well. And so we're actually quite comfortable with the types of allocations that we get and the risk level that we get out of investment freedom. Certainly, it's a better consumer proposition and obviously is a path to success in the market.

If I look at again the differentiation that we have between us and the rest of the companies out there. The huge amount of net flows that we've had postcrisis, meaning that our book is a predominantly postcrisis book. In fact, if you look at both the GMDB and GMWB, roughly 90% of our in-force now is postcrisis. But that said, we're actually still quite happy with the precrisis book. We hedged it appropriately, didn't have any losses coming through the crisis. We've allowed customers to maintain high equity allocations, which means as the equity markets have recovered so have their account values. And what you see is, generally speaking, the precrisis book is not in the money. And this particular book is quite healthy for us from a profitability perspective. And if anything, we wish it was bigger, not smaller, we, obviously, wouldn't want to be launching buybacks and trying to incent people to leave our policies here, we'd actually prefer to have more and more of them given the dynamics there. But again, postcrisis sales have been -- it's the bulk of what we have. It's a very, very healthy book across all of it, for the whole thing. And I think it's important to note within that, as I mentioned in hedging being what it was, we haven't had to take any extraordinary write-offs, write-downs, goodwill impairments, any of those types of things that we've seen out of significant assumption reworkings from, again, for most of the industry and in part due to the fact that, again, when you're deep in the money, you have all kinds of interesting things that crop up.

On the assumption side, this is our kind of typical annual assumption update. The good news is that there's really no news there to speak of. The magnitude in changes with underlying assumptions have been modest as they have been in past years. General assumption trends that we're seeing for variable annuities. Lower lapses, this is something that's been, I think, a feature for quite a long time now, just incrementally lower lapses because we see a lack -- the track of attractive alternatives. If you are in the Jackson variable annuity with investment freedom and you bought the product five years ago, there is no way you can find a better product than that today in the industry. So that's going to lead obviously, to lower lapses. We saw a slight increase in the longevity. Again, it shouldn't be particularly a big surprise, that's the general demographic trends that we're seeing, is to a little bit longer lived expectations and a slight overall increase in GMWB efficiency. So again, these are trends that we continue to see through time. They're very minor or very modest in terms of the magnitude. But these are the general trends that we're seeing.

In terms of the financial impacts of these, utilization tends to be a modest negative across all the accounting metrics. The mortality ones have been pluses and minuses, depends on, obviously, if people are living longer, it's good for DVs, it's bad for WBs. It's good for term life. So there's different pieces there that are affected but that's kind of a mixed bag.

Then in most of the persistency changes we saw from the overall assumptions were in VA. And just a refresher, in terms of that little box at the bottom, in terms of how the accounting works for persistency. Again, if you have a deep in the money book and you wish you hadn't written it at the prices that you did. And people stick around longer, that's a bad thing. That's not a bad thing for us from an economic perspective. But the accounting plays out a little bit differently for sometimes. So on IFRS for instance, we tend to see a modest negative there. That's really a function of the fact that on the IFRS reserving, you get a couple of things. One is the assumed equity rate is market consistent. So effectively, if you have a 3% or 2.5% equity expected return over time and you charge all-in fees of 300 basis points then you can see where that might not be -- might not show up well in the accounting. Additionally, we don't get to count -- we get dinged for all the benefits that would come about from those who stick around longer. We only get a portion of the fees due to the way the accounting works. So IFRS -- more persistency is always going to show up as a negative there.

EEV is the opposite because it's got equity risk premium embedded in the underlying assumptions. So positive equity growth is going to be a good backdrop for increased persistency. And statutory is really kind of a mixed bag. It tends to be slightly negative but very, very slight. So net-net, wanting to wrap all this up from an accounting perspective: really a complete nonevent on statutory, a little bit of a positive on EEV, a little bit a negative on IFRS is really where we're expecting to have the full-year shakeout. So again, good news is there's not really any news there.

Moving on to a graph that should be very familiar to you all by now. I think we've beaten this one well into the ground over the years. But it is one of -- I think one of our favorite slides. I know it's one of Mike's favorite slides. In fact, that's what we used to call it, Mike's favorite slide. But what this looks at is, just as a refresher, this is guarantee fees only on GMWB. So we're looking at the benefits we're going to pay out, the fees that we collect. And I mentioned this in particular because there are a couple of our competitors have put out similar types of analyses. And they will always include -- almost always include the core contract fees, the base MNE in there, which we don't and, obviously, it would be a very, very substantial larger number if we did. But we think this is the fairest way to look at the actual guarantees, whether you're charging correctly for it. So guarantee fees only against the benefits expected to be paid. It doesn't include any hedging, uses the prudent best estimate assumptions that come out of statutory models. There's a little bit of margin in the assumptions, uses a gross 5% equity return. It ignores any fees that we've collected to date, it ignores any reserves that we have up against the current liabilities. So it's just really kind of a forward-looking cash flow, reasonably pure cash flow. So what you see is a similar story that we've shown in the past, very strong positive economics in the base scenario. A little over $9 billion of PV of the fees, in excess of the PV of benefits, down 100 bps which really just affects the discount rate. So since our fees are net positive, you get a slight benefit out of those -- out of that. Then the one we tend to focus more is on the down 40 instantaneous. And what we see there is still with no effective hedging, no reserves, none of that brought in, that the fees just about cover the benefits in a down 40 instantaneous shock. Again see with no effective hedging. Again, just for reference, if you look at a down 40 instantaneous shock, off the current derivatives book, there's a payoff of about $15 billion. So if you think about it in those terms, if you switched out the guarantee fees for hedging expense, if you've switched out the benefits for effectively the hedge payoff, you get back to a similar type of analysis on a hedged basis. So the economic profile continues to be very strong. We're quite happy with where this book sits.

Another differentiator for us. I mean, we've written product at the right time. Markets performed well. And so what we've seen is what you hopefully, predictably see is significant increases in cash flow coming off that book over this period of time. We've seen roughly a tripling of annual remittance back to group. Again over -- also over this period of time we've seen just under -- if you take this period here and add the 2017 dividend that we already saw of $600 million, you're just under $5 billion of cash remitted to the group over this period of time, which, contrasted with the fact that Jackson was purchased by Pru for about, a little over $600 million 20 or 30 years ago, it gives you a nice relief for that number. We also -- at the same time we've been increasing remittances, driving a lot of cash flow. We've kept the capitalization, the strength of the balance sheet steady, averaging around 450% RBC over this period of time, which is supportive of our ratings and gives us a good buffer for that.

Similarly in the good news category, ROE, as I've shown this slide before as well. We compare this to the blue bar, that would be the industry. And I would say this is the better end of the industry. This isn't the companies with a broken back books with lower ROEs. So these are -- it's a fairly good group of comparators. They've seen some increase in ROEs over the period. They've obviously been working hard to get there. But we -- at our level, we're running at double the industry level. The red bars, the green bars, again, is just for a reminder as, effectively, Jackson doesn't carry leverage at the Jackson level. So if you look at AA equivalent leverage, which is what the blue bars would have, it put you a little above 30%. So we write -- as we talk about in the results, we write our products north of 20% IRRs. The market clearly has been a backdrop, or a tailwind for us. So it's been giving us a very, very healthy back book in terms of the cash, the ROEs, all the financial metrics we look at, a very differentiated performance for what we're seeing for the rest of the industry.

So with that, Barry, would you like to join me back up here. And we can -- is there anything you want to say on this slide, or...

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

Yes. So before we take your questions, I guess, just to land the key messages. First of all, there is an enormous opportunity. We've been describing this to you. As Mike says, we've probably named every baby boomer right now. We've been talking about this for years. The opportunity is real. More importantly, Jackson is different. You look at the industry, you look at our performance relative to the aggregate industry performance, we are different from a consumer's perspective, we are different. We have delivered very strong value to consumers consistently over the years. Look at us from a shareholder perspective, we are different. We've delivered, as Chad just showed you, almost $5 billion of cash immediately precrisis and postcrisis. We are capable of benefiting from this retirement crisis, if you want to call it that, by delivering strong outcomes to consumers, strong outcomes to shareholders and doing it all in a compliant way. And to me, that is a very strong combination. And with that, we are happy to take easy questions from the field.

+++qanda

A - Unidentified Speaker

Let me just start off with Arjan.

Q - Arjan van Veen {BIO 5197778 <GO>}

Arjan van Veen, UBS. Probably not an easy question. Just U.S. tax, we didn't talk about. So obviously it's a very fluid situation so could you maybe just comment a little bit on just types of changes. And in particular, to the extent of impacts, any deferred tax assets (inaudible)

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

Sure. Sure. Well first of all, just so you know we are deeply involved in the process. So we have -- we consider ourselves subject matter experts on the insurance component of tax reform and so we have, in many respects, taken the lead. We spend an enormous amount of time in Washington as recently -- I mean, I'm in Washington on this or the DOL pretty much every week that I'm not here. And as recently as last week, we had some very important substantive, in some respects, kind of a breakthrough meeting with Speaker Ryan and Chairman Brady on the House side. Later in the week last week, we had a very productive conversation in Nashville with Senate Majority Leader, Mitch McConnell on the Senate version. The 2 versions are different. I mean the way this process is going to play out, Arjan, is the House will probably vote on their bill today. The Senate will take a little bit longer. The versions, as you know, if you have studied this at all, you see the versions are quite different. There's a little more specificity around insurance in the House version than in the Senate, the Senate's has just kind of plugged a number and seems very general in terms of the sources of the addition taxation they expect the life insurance industry to pay over the next 10 years. In the end, we'll end up with a conference committee, what's known as conference committee in the U.S. where the House and Senate pass 2 different bills they'll get together, work out the differences and, ultimately, reach conclusion. But we are very wired into the process. We are talking to, as I said, we had some important meetings last week. We are in communication with, on the Senate side, the 4 key members of Senate Finance who will actually roll up their sleeves and write this stuff, which Tim Scott from South Carolina, Pat Toomey from Pennsylvania, Rob Portman from Ohio and John Thune from South Dakota. Met with some of them last week as well. So we will be monitoring this closely and being as influential as we can be. On the DTA, obviously, there's a mechanical link between the tax -- the top tax rate and the DTA. But you want to try and scale that a little bit?

A - Chad Myers {BIO 2234559 <GO>}

Yes, I guess obviously this will be an industry-wide conversation. Actually it will be, not just the insurance industry but across all industry-wide conversation. But because it does impact DTAs, it will probably be more conversation for the insurance industry. So I mean the basic tradeoff is we're going to see lower tax rates going forward. So more distributable earnings going forward. The quid pro quo for that is going to be deferred tax assets will be carried at the new marginal rate, which would be lower. Whatever that's going to be. I mean obviously, they're trying for 20, we'll see where it ends up. That's why it's hard to kind of scale at this point in time. But effectively, think of it as some sort of impact on the DTA today for some payback in the future. The question just gets to be what the ultimate rate is and how quickly the payback comes. And that we won't know until we have more specificity.

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

If they do what they're trying to do, the impact of the tax saving themselves will be material, if they get there.

A - Unidentified Speaker

Okay. Can we have James?

Q - Unidentified Participant

It's James (Schacht) from Citi. I had 2 questions, please. Firstly, just going back to the chart, you showed about the opportunity in the -- essentially in the nonqualified space. There's obviously a lot of Department of Labor reforms are around the qualified space in making sales effectively more difficult. You're highlighting the opportunity in the non-quo space. I guess my question is really kind of what's changed there? Because it's not clear to me that this is something that gets easier if you -- going forward, it may be something you should have been doing before and it's an opportunity. But I don't really see, as a result of the Department of Labor reforms what actually changes there. That's my first question. And secondly, it -- I mean, the U.S. business is a very concentrated product. I think, Barry, in the past, you've talked about variable annuities essentially being a decumulation products. And you don't have any accumulation product as such. Can you update on where you are in terms of developing that type of product? And also if you could just comment on the DRD as well, that would be helpful.

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

Okay. Well we're -- the opportunity going forward is both qualified and nonqualified. The -- always has been. But obviously, the DOL rule was applicable only to qualified money. So -- see if this is the answer to your question, if this is what you're looking for. I think what's going to change and what makes this easier, if you will, is the fee-based product is -- it's not just that the advisor is compensated differently. But we have gone to great lengths to simplify the language in that product, to make the charging structures very transparent for the -- to the consumer. So as opposed to getting this thing where an advisor comes to you and says, "Oh, well, we're going to sell you the PII, probably level 4 with -- and we're going to put a GMWB on there and a DB as well." And people's heads are just spinning, they have no idea what you're talking about. And now what they're saying is, "We're going to come to you with this product. There's a platform of 160 funds that you can choose from to invest your money. And most of these funds are already familiar to you. They're available to you directly or through your financial adviser or whatever. So there instantly recognizable names. They're not proprietary funds. They're very popular and well performing funds in the marketplace. Choose those funds. You're going to take a tax advantage and let me show you the value of that. Then the real conversation is that we need to have is how much you're willing to pay for insurance." So you think about it this way: you own a home and you pay extra every year for that home because you choose to buy insurance and the reason you do that is because that is an asset, probably your largest asset or certainly you one of them. And it so valuable to you that the loss of it financially is something you wouldn't even want to think about. So you pay potentially thousands of dollars a year to insure that. Likewise, if this is your pension pot and you're going to have to live on this for the rest of your life, would you like to see a proposal for insurance that says that no matter what happens, if you make bad investment choices, if the market just goes all to hell, there's another 2008 and there is -- the recovery is slower. Regardless of what happens, that there is a stream of income around which you can budget your retirement lifestyle and that stream of income will never go away. And so the conversation with the consumer, because of the structure of the product, because you're doing it in a fee-based environment where the cost of advice is now out of the illustration and we're now functioning sort of on the same level as someone who's just looking at putting money in mutual funds, it completely changes the dynamic. And I think that's the change. So it's -- there's other things. If SEC and the Department of Labor do get together and harmonize the Fiduciary Rule so that everybody is kind of working on the same basis, regardless of whether you're talking about qualified or nonqualified money, that's great too. If we can get to the point where we've got the technology solution so that it's easier to transact, that's a great. But the real difference is a product that is simpler, demystified, transparent. Does that answer the question? Okay. You want to talk about DRD, right?

A - Chad Myers {BIO 2234559 <GO>}

Yes. So well DRD, that's one of the parts that's going on in kind of the meat grinding that they're doing on the tax side. So DRD will, it appears that it will continue, it's just at what level. So there's DRD-relative insurance, there's DRD relative to all corporations. It looks like they're planning on leveling the overall deduction you could take across all industries to make it level with the new tax rate so that you don't get kind of a windfall. So there's an equilibration that's going on there. Past that, as Barry mentioned, they're still working through some of the insurance revisions to see how much is going to be off of various topics. DRD is one of the ones being discussed but we won't know until we see the bill. But we expect that it will still have benefit to DRD.

A - Unidentified Speaker

We have Nick.

Q - Nick Holmes {BIO 3387435 <GO>}

(inaudible) apologies for my voice. First question is on risk appetite. You've written a lot of variable annuity guarantees in the right part of the cycle since 2009. What's your view of the guarantee as a financial proposition, if you like, if the next five years are not a bull market? Is that where you want to take the company? Then the second question is looking at NAIC reform. You provided us with a very helpful update on policyholder behavior assumptions. Wondered whether you could share with us your views of what the NAIC is planning in this respect? I think there was more disclosure that they're thinking of. And how you would want to respond to that.

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

Sure. Well we think fundamentally, I think I'll let Chad give a fulsome answer. But fundamentally we believe that consumer centricity of the product. We believe we have the capabilities to write it -- not just in bull markets but in bear markets, we've done that. As Chad alluded to, you've seen us behave differently in different markets. And you've seen us willingly, not necessarily gleefully. But willingly lose market share and sort of withdraw when contract language and pricing associated with those contracts got just too aggressive. And so we stepped back because we take -- again, coming at everything from the standpoint of consumer centricity, we take our ability to deliver on every promise made extremely seriously. So you would expect us to, when people are promising things are complicated to deliver, then we don't make those promises and we'll step back. But...

A - Chad Myers {BIO 2234559 <GO>}

(inaudible)

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

We could put Mike's favorite slide back up there again.

A - Chad Myers {BIO 2234559 <GO>}

We don't assume that the next five years are going to look like the last five years, I mean, the market is going to have to correct at some point, given the valuations and all that. What I would say is the products are priced through the cycle. So the fact that we're generating north of 30% ROEs now is fantastic. That's not our base case. And if you thought about -- if you think about it in these terms, very crude math. But if you saw halving of the market and therefore, halving of our fees, you're still going to be in mid-teens ROE on the product. So we're quite happy we wrote it at that point in time. So the long-term nature of the products will give us, I think, a very good cash flow signature over time. If you get a correction, again, that kind of sets things up for a very nice time to write the next chunk, the existing book is well hedged. The other thing I'd mention on risk appetite just in general is to keep in mind, we've had a very -- actually in the past, this is getting further into the past, we had a pretty good lift out of the crisis in terms of net flows as you think about the growth of the block was going at pretty good clip, 20%, 30% a year type of growth of the in-force. Most of what we're seeing is not off of sales. It's really off of the growth in the market. So our net flows, if you look at net flows as a percentage of the overall book, it's mid-single digit percentages. So it's not a runaway growth from that perspective. Most of what we're seeing is really is how the market is driving it. So from our sales perspective, new business type of perspective, where we are right now is actually quite comfortable because it's not really adding much to the overall risk pot, if you think about it that way. On the NAIC. So the NAIC should have received from Oliver Wyman sometime last night in the wee hours, a proposal from Oliver Wyman based on all of the Quiz 1 and Quiz 2 studies that have gone on, which we have been a very active participant. They will -- the next part of the process is they're going to -- the NAIC working group is going to take that under advisement. They're going to come out with what they view is what they would like to see given the various levers that Oliver Wyman has shared with them. They will expose that sometime next week publicly is our understanding, what their view is. It will be further discussed at the NAIC meeting in December, conveniently located in Hawaii in December. And there will be more debate there. There will be an exposure period, expecting 90 days post that for industry to come back on it. Then we will see it work its way up through the NAIC. Keep in mind, at this point everything that has been going on with NAIC has really been going on inside this working group, which is within the overall architecture of the NAIC is a relatively junior group. It will have to go up through these other committees which, based on conversations we've had with the committee chairs of the various committees, hasn't had a whole lot of focus from the parent committees. So they will be more looked at there. If it's significantly worse than people are expecting, I imagine there will be a lot of conversation at those committee levels from the Insurance industry. So there's positions that could be taken along those lines. And as I mentioned previously. And I don't expect it to go this way. But if it's sufficiently poorly written or sufficiently penal, what's going to happen is it will incent companies to go set up captives to avoid the exact -- they will incent the behavior that was exactly intended to avoid in the first place. So there's always that option. With respect to policyholder behavior to it, I think where you were going, which was the disclosure piece. One of the bigger open items at the moment is whether or not there's going to be a standard scenario like there is now. Currently, you've got the stochastic version and the standard scenario. There's discussion about a standard scenario that would not be quite in the same vein it is today. It would be more of a policyholder behavior kind of capital add-on is the concept that they are looking at. That is being discussed as to whether that's going to exist at all. Some of the more conservative states are pushing and things like that. There's also a lot of discussion about whether it would actually go into the capital formula or whether it would just be a disclosure item. There's a reasonable chance it just becomes a disclosure item. So things that we'll still have to see on that. I'd say broadly speaking, if it lands the way we are kind of expecting it to, I think it's within the realm of what we expected it to come out, not a huge capital drain on the industry. But again, until the ink is dry we don't know. So...

A - Unidentified Speaker

Okay we'll take 2 questions before we move to group. Andy?

Q - Andrew Hughes {BIO 1540569 <GO>}

Andrew Hughes from Macquarie. Three questions if I could, very quickly. The first one is I just want to understand if the lower lapse rates have translated into the stress scenario, to (inaudible) equity down? Because you have sort of put those in one for one? The second one is about the standard scenario that you just mentioned. Because I think you think your book is better positioned than the industry. So do you think that moving to a kind of standard scenario or some sort of policyholder behavior assumptions will be particularly penal for you, given that your book is very different? And the third question is about dividends for -- how do you approach dividends from here and how your local regulator views the scenario for you to pay special dividends and given all these uncertainties to do with tax and also the regulatory change environment?

A - Chad Myers {BIO 2234559 <GO>}

Okay. Remember all the questions now. So on the first one, yes. On the assumption -- on that one cash flow slide, that is updated for assumptions. And if you went back and looked at the 6/30 one, you'll see actually that the 9/30 down 40 is a little bit worse than the 6/30 one was, not meaningfully so. But it's a little bit worse. And that's due to the fact that we have lower lapses. You'll also see the base scenario is a fair bit better also due to the fact that we've got more persistency. So that's kind of the tradeoff. So the new assumptions are captured within that. On the policyholder behavior piece. One of the things that we've been observing as they go through this, there definitely seems to some disconnect between GMIB policyholder behavior and GMWB policyholder behavior. So -- and if you think about what products are out there, there's more -- there's actually -- well, there's more experience with GMIB deep in the money because that's just more of where that product, the way that products was written and the way that the market has gone. You get a little bit more experience on that. So we wouldn't necessarily be fans of taking GMIB experience and putting it onto GMWB. That said, what's a little bit thorny with this is that the -- that which they're going to base their conclusions on is a very, very small sampling of competitors that submitted policyholder behavior detail. So for instance, Jackson wasn't part of the policyholder behavior study that went through and we obviously have one of the biggest books in the industry. And even Oliver Wyman, in some of the papers, has pointed out the fact that these deep in the money lapses, which are the issue if you're looking at the capital, that there's not a credible cohort, in terms of enough experience within that cohort, to be able to draw any great conclusions. So their own work is basically supporting that there's just not enough good data to be able to come up with a high confidence level scenario. So -- or a set of assumptions. So I think that's why it's probably more likely to push towards disclosure because there's going to be a lot of pushback from the industry to take a less than fulsome lapse study and -- with a lot of variance between companies and say, "We're going to apply this across everybody" is not a particularly useful way to go about it. And I'm sorry, I forgot your third question.

Q - Andrew Hughes {BIO 1540569 <GO>}

Dividends.

A - Chad Myers {BIO 2234559 <GO>}

Dividends. We're still well-capitalized from the perspective of a U.S. insurance company. So we don't expect that The States are going to stand in front of any dividends necessarily. But that said, we have NAIC coming out and we mentioned tax. So we'll have to see how all that shakes out for us in the industry when it comes time to pay dividends again. But at this point, we don't see any pressure.

A - Unidentified Speaker

And Blair, last question.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

It's Blair Stewart from BAML. Two questions. Barry, just on DOL, do you think we will need to wait until we get to mid-2019 to see a return of confidence from the advisors? Or is there something that can happen in the meantime, whether it's SEC involvement or something else that can get -- that can inspire more confidence in the VA market? And secondly, on the product, you talked about the opportunity of all the advisors out there who don't sell the product. And I guess, cost is one thing that we often hear, the cost of the product. Have you thought about any alternative product designs that would lower the cost? I know some of your competitors have brought in a very long cost VA and will be using ETFs and index funds. It still gives accumulation optionality but at a lower cost. Is that something that you have considered or will consider?

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

Okay, in terms of DOL. There's already some green shoots appearing. So there -- the drumbeat from the field, from our external wholesalers who call every day on advisors gets gradually more positive with each passing month. So there is cause for some encouragement. I don't think that we have -- that it's going to just kind of plod along and then all of a sudden, with the new Fiduciary Rule we get this huge uptick. I think also the messaging that comes, it's very useful when Secretary Mnuchin or Secretary Acosta, in whatever forum, opine on this work is underway or the new SEC Chair Clayton -- sound-bites from them are useful and cause encouragement. So no, I do think it starts recovering. But it's really an important milestone that we get to July of 2019 with the right kind of rule. So -- but it will take time. It will take time.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

(inaudible) Sorry, mic, can I just ask, what is it you think advisors need to hear? Is it the litigation related or...

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

Well of all of the dimensions, it's the litigation as an enforcement mechanism that cause the most concern. And in some respects it's not actually what the advisors need to hear, it's what the broker-dealer compliance departments need to hear. Because that's -- there are a lot of tickets that get written by advisors for these products and it varies from broker-dealer to broker-dealer. But some of the broker-dealers are just so concerned about the risk they accept. And that's the principal cause of the risk, that they just knockback VA tickets. And so that's really the message that needs to get through. And Secretary Acosta has been pretty open about the need for a reasonable enforcement mechanism in lieu of right of private action. What was the other question?

A - Chad Myers {BIO 2234559 <GO>}

Product.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

(inaudible)

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

Oh, well, first of all, the ETF's are available on the advisory platform now. So as an investment vehicle, those are there. I think, actually, when you sit down with the consumer. And -- as I said earlier. And you explain what the actual costs are, you can have a conversation, you can say particularly if you look at the new advisory product and you compare it against an actively traded mutual fund, in particular, even with -- you can demonstrate that the costs are fairly equal with -- before the guarantees that the basic cost is fairly equal. When you bring in the tax leverage that's inherent in the annuity contract, you can make the case that we're cheaper than the mutual fund. But even if you set that aside and say, "We're starting from a point where we're the same price." Then you're having a conversation about what are you willing to pay for insurance and what does that insurance actually provide you. And that is exactly the kind of conversation we've always had. And I think most consumers, when they look at that -- and I've done this to people, I sit down and sort of take them through the presentation. What would you be willing to pay to ensure that you could get x amount every month forever no matter what. And when you tell them the cost, most people I've talked to said, "Oh my gosh, I would pay that. That is not expensive insurance." It's really how you frame the whole thing. And candidly, one of the keys to this. And what really skewed the whole conversation was the fact that for years, we had the cost of advice built in which people didn't really recognize. And that made us look very expensive, relatively speaking, compared to a mutual fund. With that out of the equation, you can have a straight-up apples-to-apples comparison. The product is very compelling.

A - Chad Myers {BIO 2234559 <GO>}

One clarification on that, too. When we talk about it being apples to apples next of the regular mutual funds, the prospective advisory product is designed to be competitive at the iShare level. So these are institutional class, share class pricing.

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

Yes, good point.

A - Chad Myers {BIO 2234559 <GO>}

And another thing, one of the things that we also brought in with respect to PA2 back onto the other products as well was Vanguard as an option. So that's -- Vanguard is obviously key in the advisory market. So we have Vanguard...

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

That's right, that's right. Internal trades. Internal trades. So you can -- the other thing that we provide that the mutual fund that doesn't do is if you want to switch around, rebalance within the mutual fund, you're going to get whatever it is. There's some, even if it's a modest charge, there's a charge every time you do that. And we give virtually unlimited ability to trade within the contract at no cost.

A - Chad Myers {BIO 2234559 <GO>}

It's a benefit relative to the mutual funds in terms of the no cost. Vanguard's already been very well received, I think that will give us some lift, too.

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

I think that was it for us.

A - Unidentified Speaker

Okay great. Yes. Now we move to group Q&A.

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

All right, guys, the homestretch. So hopefully, while everybody's getting settled, we showed you some of the compounding J curves in these markets, from the difference of the various cohorts of the baby boomers coming through without DC plans to the -- some of the well-rehearsed capabilities and dynamics in the Asian market. And then the leverage of all the things that we're doing in the U.K. on top of the consumers' need to self-fund and get the money out of cash ISAs and ability to compete in the second largest asset management business.

The other thing I was hoping we came across today, I was thinking. So as most of you have know this. But I've been a little over 22 years with the group. And we are getting a lot better, as you -- I hope you heard today, at not only that have the breadth and talent to do all these things but to innovate with partners. Well I'll give you a quick anecdote.

One of my first presentations to the board, (Hovern Barns), who -- I was with the firm about a year. And I have brought an IBM laptop that actually had the amazing color capability at the time into our old boardroom, which had pop-up screens for the board members, it's still had the 2 secretarials, where the note-takers couldn't see the board members, right, just to give you a visual of this. And I asked our IT people the night before for a 24-pin cable. Does anybody remember these? You plug into a monitor with them. It was actually 36. And I want to have a 24 on the other. And to give you just how focused we were. And everything had to be built here, they didn't have one. So they got one of the electricians. And they built one, okay? And I get there in the morning. And there is this firehose of 36 wires that's been taped together that they want to plug into the back of my new laptop. And they're quite serious. And they drag it down the hall like they found a large snake in the yard or something. And we get the -- and we plug it in. And it works. And I -- we go through the presentation. I said thank you afterwards to the electrician. I said, let me ask you a question, "Are -- why wouldn't you just walk down the corner and just buy a printer cable?" And he says, "You need to understand that's not the way we do things here." Okay. It is now. And I hope you heard Alibaba's Cloud in China. By the way, that platform, almost all the transactions now are on WePay or Alipay. So it's almost a cashless business model for us, including the payments out. You've got IBM Watson, you've got just about every BlackRock's, Aladdin, Microsoft's best technology. With some of the smallest tech firms, we have partnerships. So we don't have a bias going into this, that all innovation has to be driven in-house, okay? We have to be a good partner for innovators. And we -- and with our scale and our reach and all the various projects going on, they're leverage for us in our business model. So we need to be able to connect with them. We need to have client bases, that they want to work with. And we bring scale to a startup. And we bring a large account to a large tech firm. But hopefully, you heard that today.

Then the last point I'm going to make before we go to Q&A is the quality of the growth, okay? We're walking away from a lot of business that competitors are choosing to write: that could be product; that could be channel; that's countries; that's entire regions. And we are very happy and very intentional on where we're doing business, who we're writing it with, the kinds of products we're doing. And I think that's getting you the consistency of the returns.

So with that, what would you like to know? Let's do some questions. What are you curious about?

A - Unidentified Speaker

Okay. We go to Greig.

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

Greig Paterson. Three questions, two on the U.S. One is some you commented -- commentators on the RBC ratio relative to the proposal on tax change because of the different basis used in the different components, said they thought they'd have a 50 basis points hit on their RBC ratio. I was wondering because you're a GMD -- WB writer, this is an IB writer, whether yours will be larger or smaller, that's the first question. Second question is, last year, for the first time, in my memory, on a fair daily basis, whether you adjust the IFRS or you made a GBP 1.5 billion loss in your VA hedging program, my understanding it was because of high equity markets and high interest rates and then an overspend on a hedge, et cetera, et cetera. But one of the things I took away from that is the EV sensitivities weren't very predictive, hence, I missed it. And we've had equity markets rise further and interest rates rise further. And one of my worries is that someday, we're going to see another below-the-line item. I'm going to phone -- get a phone call from a shareholder going, "Did you see this, Greig?" which happened this year. I wonder if you could give us some comport or what actually went on there and why the loss for the first time in a long time and how we don't have to worry about it going forward. Then the third question is, as it also comes up, AIA has done 3 -- maybe 4 -- 3 large bank assurance deals...

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

Yes.

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

Recently. And Pru was (inaudible) . I was wondering why you guys never did any of those. And if you just want to talk about the opportunity why they're getting them and you're not, maybe it's on price, I don't know.

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

All right. So let me -- I'll bounce these to folks. So on U.S. RBC, remember, it's after tax. So these -- the tax changes effect. But let me flip that to -- Chad, do you want to? Is that -- or I'm sorry, do you want to foot that to Barry?

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

Yes, yes. Well who -- well, you said it's a GMIB writer that suggested that? I wonder...

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

I'm sorry. So just with -- in Quad Capital's, one's gross of tax, one's net.

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

Yes.

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

I terms of tax regimes, (inaudible) with the ratio (inaudible)?

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

That's right.

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

People say 50 basis points. I'm wondering if you have same number, higher, lower.

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

Yes, I don't know that we made -- Chad, do you want to?

A - Paul Chadwick Myers {BIO 2234559 <GO>}

It's not 50. Yes. So it won't make a difference here, GMIB, GMWB. That's mostly going to be -- the impacts on that will be primarily driven by the C1 charges. That's the bigger issue with the credit type of charges. So it depends on how big that book is and more to the point in which -- where you are in the spectrum.

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

Chad, while I got the mic, do you want to mention -- address the hedging comment?

A - Paul Chadwick Myers {BIO 2234559 <GO>}

Yes, on that one, I mean, the hedging, I don't think we've seen anything new going on in the hedging below the line that we -- I think as we talked about over the years, depending on the market scenario, IFRS is a very market-consistent type of framework. So -- and you get all kinds of interesting answers coming out of the reserves versus what we're doing in hedging. We hedge the cash flows. That's what the hedging is driven off of. On your specific point relative to EV, maybe we can take that offline because I'd have to see exactly what you're pointing at.

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

(inaudible) on a fair daily basis, if you adjust with the IFRS, which you are able to do, there was also a loss as well. So when you put everything on a like-for-like basis, there was a big loss last year. It was (inaudible) interest rates. I'm trying to figure out if we're going to have another loss this year.

A - Paul Chadwick Myers {BIO 2234559 <GO>}

Well I think if you look at IFRS through -- below line through da first half of this year, it was, I think, relative certainly significantly reduced from last year and -- but I think well within our expectations. (inaudible) I should say.

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

Then on the AIA comment, I'll flip it to Nic. But I think it's a fair assumption that any reasonable-sized bank deal in Asia, even the smaller ones, there's not a whole lot of people don't look to us given our capabilities there. But do you want to?

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

Maybe just to repeat what Mike has just said, we have line of sight of pretty much everything that is happening kind of in the region. You'd expect that because we are one of the -- well, probably the long -- we've had some of the longest relationships. And we're reaping the rewards of that. But as we've said before, we want to partner with people who will look to build exactly that, a partnership. We're not in a just-to-pay kind of the biggest upfront check. Actually, we want our partners to make most of the money through the 5-, 10-, 15-year period of the deal. And that's the basis on which we do these transactions. And the other thing I have to reinforce, it's -- I think as Barry had said it many times, we would like more distribution. But we don't need more distribution. On the banking side, as you saw earlier on, on the slides, we have access to 10,000 branches across the region. That's one of the largest footprints by some way. And even though with such as SCB and now UOB, we've been cooperating, collaborating for a number of years; in the case of SCB, 17 years, these sales from bank branches are going up strongly. In the nine months of this year, sales are north of 20%, with both of those names producing double-digit growth. So no, we do look at it. But we will only do it where we are -- where that is economic. One other development that's happening in the region is that we began to see nonexclusive product-only type deals that 1 or 2 insurers are making with banks. And that's not an area that we've looked at very hard in the past. And it's an area we're going to be putting more focus on as we move forward.

A - Unidentified Speaker

Okay. Nick?

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes at SocGen. A question for Mike. Looking at the group growth outlook, you've obviously achieved exceptional growth in the last 10 years. But this has come as much from the U.S. as from Asia. And looking at the next five years, with the, I don't know how to describe them, challenges or uncertainties, perhaps is a better word, in the U.S., how confident can you be that Pru will maintain its superior growth? And I mean, could you actually share with us your sort of conviction about whether double-digit growth is still what you think is truly achievable?

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

So I'm not a huge fan, Nick, as you know, of forward-looking statements. It's my aversion to orange, I think, is part of that. I think the structural growth of the businesses are there. And if you think of Mark's slide on the future value of what we've already written in Asia, the percentage -- if you take the percentage of recurring earnings that we have now versus we had, to your point, 5 or 10 years ago, it's completely different order of magnitude, both in the absolute number and the percentage of earnings. So I think we've been very clear. We think Asia is the growth driver earnings-wise. What is the -- the other way to look at it, what's the natural growth rate in Asia? It's incredibly difficult to predict even with the portfolio we have. I don't think we're missing a single market in Asia. And with the exception of China, every one of the markets should you want us to be huge in, we have a market-leading position. In China, we have an incredibly fast-growing, very well-structured, very dynamic business with lots of upside. I'd love it to be, 2 or three years on, whatever metrics that we think that will produce. But it is -- there are -- that's structural. The cyclical earnings from the U.S., from M&G, from PruFund, what you see, again, first -- the first nine months of the year is -- the team, I think, was a little modest in that it's outperforming their industry peers dramatically on net flows, okay? So our ability to compete across cycles and get what growth is there. And again, these are off large numbers, I think, is proven, it comes back to your assumption on markets. So the cyclical businesses will have more -- will be impacted more by a different market climate. Chad's comment about a correction -- excuse me, Chad's comment about a correction, if that happens. The other thing I hope was clear today is the allocation of the consumers whose money we manage in various vehicles is fairly conservatively allocated, right? It's just proportionately value-centric on the equity side. It's pretty well diversified on debt and equities. So even our sensitivity to market movements is dampened by the way we -- we have long-term savers' conservative money. So I think our growth prospects in any market looks hugely competitive with anyone else. The question is what parameters do -- what market do you want to throw at us. Then I can tell you what aspect of the performance we expect to come through. If there's a major correction in the U.S., I think the resiliency of the capital in the balance sheet will be what we're talking about. If there's a major correction here, the sales and the with-profits, the more conservative bond funds. In Asia, it's still about structural GDP growth, market penetration, the risk off-trades tend to increase persistency and elongate sales in all markets. But I don't see a derailing scenario for us. And at the end of the day our performance measure and has to be relative to other asset managers, other savings companies, the people that provide the solutions that we compete with. As I said before, I think the worst scenario for us is if every consumer globally thought the easiest thing to do is via a passive growth fund. That's the one that's actually the hardest for us. And I've -- we've all -- and I know most of us have worked through that climate when clients expected high-teen returns on equities without any risk is an incredibly difficult business climate if you're a risk-off provider. But no, I don't -- I wouldn't go forward of what our forecast would be. The only other thing I would say to that, though -- I hope it's clear today. Everything with us is about evolving and evolving at pace. So I don't think there's any -- I don't see anything in our short-term plans that would suggest we can't compete with anybody in the markets we're in. So -- and that which is also a factor in growth for us.

A - Unidentified Speaker

Andy?

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

Andy in the back.

Q - Andrew Hughes {BIO 1540569 <GO>}

Andy Hughes, Macquarie. Three questions, if I could. The first one, the question I always ask on PruFund, John, which is what's the shareholders' share of accrued bonuses that you haven't distributed so far? Second question, on Malaysia, obviously, the 25% potential sale is indicated by the regulator. Would that sale be kind of taxable, the proceeds? And what would you do with it, (assuming) you don't need it in Asia? And the final question, I guess, is on China, do you have a call option? I think a few of your competitors have mentioned they have a call option on the stake. Do you have a call option on CITIC that you could exercise?

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

John?

A - John William Foley {BIO 4239156 <GO>}

I can give you the answer I usually give when you ask that question, Andy, which is that we don't discuss that information. But thank you for asking it.

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

So Nic, do you want to start with Malaysia?

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

Yes, I don't really -- there isn't much to say at this point on kind of a Malaysia potential divestment beyond saying that we remain in discussion with the regulator and will update you, at the appropriate point, what we do, when. And if so, how. But that shouldn't detract from the sort of great job that Malaysia is doing in our numbers. We've got a phenomenal business there. And we'll drive value either organically. Or if we have to make a disposal of some shape or form, then we will extract the value in that way. The -- I was there only last week, had the opportunity to see the team. We -- at the -- I'll talk to the numbers in

Malaysia because they're in the public domain. We were growing at the rate of around 10% at the half year. We stepped that up to 32% in the Third Quarter. So a big step-up. So Malaysia year-to-date is up 18%. And is growing 3x faster than the market. A #1 position in both conventional and Takaful a business. So a great place to do business and one where we'll continue to extract value, as I said, under whatever ownership structure we may end up having to abide by if the rules move in, in that particular direction. On China, (inaudible) #1 to that one. No. There is no call option. I mean, candidly, until the rules -- certainly, in the life side there isn't. The rules came up last week. There was no option to increase beyond the 50% level. But let me have another go at explaining why we're excited there because it's critical. We've now been there for, I don't know, 17, 18 years. We started late '99, early 2000. It's no coincidence that we are in 18 provinces, okay? Although there's no rules, there's nothing written down that says that foreign JVs will be licensed at one province, one branch a year, that's what actually happens. Now as we go forward, who knows? In liberalizing, in relaxing this, then they may allow others to accelerate that, they may not. The key thing is we are there. We are there in all of those 17, all of those 18. We have access to 940 million people, okay? We have 1 million customers. So we have the branches, we have the distribution, we have the admin centers, we're connected to all the social platforms, to the payment systems. And we're selling business. The biggest opportunity for us, okay, is growing into that footprint, okay? It's how do we turn and how quickly we turn the 1 million customers with 2 million policies into 2 million customers with 6 million policies. That's the main driver of growth and the main driver of value. Okay, now if we can do that at the same time as taking off 50% and turning it into 60%, 70%, 80%, that's fantastic. And of course, we're going to have a go at doing that. But that's not going to be the main driver. The main driver is penetrating the footprint. And if I'm fortunate enough to be in the job for as long as Barry was, I see no reason why China can't be as bigger if not more bigger than Hong Kong. That's how great the opportunity is.

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

Just, Andy, one more comment, that we're in Beijing 3 weeks ago. I think this is just an amazing team. It's evolved. And CITIC is a great partner. Navigating China with a well-regarded major state owned enterprise is a nice way to deal with the complexities and the local cultural issues and the difference between a Wuxi and Chengdu. It's not a -- they're incredibly valuable as a partner of us in this. So what you're talking about is economic interest, if we want more of it. If you said would you rather have a 100% ownership or an excellent partner, I'll take the partner. I think it is -- it's a -- they add incredible value. The relationship has evolved to where there's far more interaction at the board level and the team functions as a team versus the sort of stacking when the relationship was -- it was earlier, one of yours, one of ours. We have the -- they're very open to best practice. The teams look at competing with mobile GI players in terms of quality, as you heard in some of the comments. So they build their solutions and their consumer frontends to be that easy and effective. So it's quite a good partnership. And it's a -- again, if I had -- if we were starting from scratch today, would you like to own more of the economic interest? Of course, it's a growing business. I would -- but I -- we wouldn't -- I wouldn't trade that to not have them as a partner, because they've been incredibly valuable.

A - Unidentified Speaker

Okay, Jon?

Q - Jonathan Michael Hocking

Jon Hocking, Morgan Stanley. I've got 3 questions, please. Firstly, you're doing a lot of, say, pretty interesting stuff, particularly in Asia, in terms of digital and customer journey, et cetera. Is any of that transportable to elsewhere in the group, I think, in particular, the U.K. given you're starting to digitize the business? That's the first question. Second question, I guess, for Nic. In terms of the extra IT expense you're putting into the business and with a lot of the business looking like it's going to be so straight through in terms of policy on boarding, et cetera, I'm guessing there's not a lot of sort of gross margin erosion going on in Asia. Is this something which we can expect to see a margin inflection point at some point as this actually becomes ubiquitous within the business? Then just finally, I guess, for Barry. Looking at the U.S. business, the business has reinvented itself once from being a sort of fixed annuity shop to being a VA shop. If what you think is going to happen with VA doesn't pan out for whatever reason, because of the regulation or distributor attitude, is there something you can do, taking the capabilities you've got in terms of admin, adviser relationships, et cetera, to reinvent the business again and take it into a completely different product direction?

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

So Jon, on the digital, hopefully, we showcased today that these are things we do in normal course. They're not -- we don't have a -- one team working on this, separated from the company. I've -- I think that's a model. But it's actually a quite difficult model. They tend to have the best toys and different rules. And so this is -- these are embedded solutions. Specific examples, to your point. So Aladdin, if you think about it, is across the group. The robo-advice technology that we're using, again, we did small first-round investments in some of the small firms, like the one we did in robo-advice you see in Taiwan and you'll see in the U.K. So we are quick to use technology across regions. Some of it is regional specific. So I -- because of my son in China, I have WeChat on my phone. And I don't have the payment capability because I'm foreigner, right? So those sorts of things I don't see the -- translating to foreign markets. But India, if you looked at our fund management in our life JV is incredibly digital. And there's far more sharing than I've ever seen in the group. Have we eliminated the need for any outside advice? No. Are we much more efficient in bringing the teams together and saying we own this, try this. And -- absolutely. And there's a -- there's an evolution. The -- we look at -- probably as a team, we've probably seen 50 startups this year that think they're rather disrupters or a part of some -- because we think they're -- some of them we'd invest in. Some of them we want to know how they think they would attack our franchise. If you think it -- if you're a small fintech that's -- or insurance tech, right, which is actually a thing, they -- if we partner with you, it's sort of as if we go into a building, right? So if you own a building, we -- and we move in and sign a 20-year lease, the value of that building goes up because of our credit, right? And your ability to raise money gets easier if it's a mortgage or MSB. Same is true of a small fintech. If they're small. And we do an early round with them, that's credible. And if we do an early round and they have access to our capabilities, our data, our technology, that increases the value of their franchise. So these firms want to talk to us. And I'm not -- I don't think we want to own all of it. So when we do that, we do that at the group level. Al-Noor Ramji, he's been discussed a few times today. He's our Head of Digital. He works across business units. We negotiate across business units now on technology contracts. It could be anything from API -- whatever it happens to be. So again, that goes to efficiency. That's using our scale. And I think we're fairly agnostic as a team of where something's created now. There isn't -- it's far less siloed than has been historically. And I say that as one of the ones who, as a poacher turned gamekeeper, I used to manage one of the silos and try -- we're getting big enough, where we need to show you what -- that we can do these things as a group. And digital is a great example where consumers are consumers. They -- the -- what works in Northern Asia market. And Asset Management works in the U.K.. And that some of that absolutely carries across. On the margin inflection point, Nic, do you want to talk about the investment versus...

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

Yes, I mean...

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

Variable cost?

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

Yes. We already spent quite a lot on technology in Asia. You may be surprised to hear. But we spent somewhere between GBP 200 million and GBP 225 million a year. So we're talking about upping that up by a further GBP 15 million for the next 3 or so years. So I do think this, in and of itself, is going to have an impact -- a direct impact on the margin. Margin, up until -- in my eight years that I've been with the group, kind of the biggest thing that moved it was country mix and product mix. It's the outworking, ultimately, of that and, of course, the distribution channels that -- where the products come from. So as -- look, as we move forward, I firmly believe that there are potential drivers of continuing to improve returns. Yes, on the one hand, it's a much more competitive region. And competition may drive -- may put pressure on margins. But as every one of our 600,000 agents becomes a year more experienced, they'll be able to be more productive. As a year goes by and the GDP increases and penetration increases, those agents will be able to write bigger case sizes. And the work is the same, whether you're writing a GBP 500-a-year policy or whether you're writing a GBP 600-a-year policy, at least the fixed overhead. And of course, as we get bigger, you get advantages of scale as well. So there are -- there's a number of other exponentials there, that come -- or growth curves that come from as we increase the productivity of our agency, as case size goes up and as we put more business through the machine. And all of these things are -- within my view, more than mitigate any competitive pressures. But the shape of the margins, ultimately, will be -- will continue to be determined by mix.

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

The other thing, I think, we saw in my old role in the U.S. with technology is you can handle more complexity without increasing costs. And get better service to the client because the standard for us with consumers globally is not necessarily what a competitor does. I mean, we talk about competitors in here because of the -- you're technical expertise are focused on them. Most consumers, they're coming from Google or a different consumer agent site. They're one of our platforms. That's their expectation level of interaction, of capability, of feel. So the standard keeps moving up with general consumer standards. It isn't -- us being relative to MetLife or L&G or Aviva, it's not -- that's not where the consumer -- they don't go from their site to ours. They go from wherever they were doing their electronic bill pay or something to us. So that bar keeps raising. But we certainly can get some of our -- some of our newer businesses, for example, have very, very low, very scalability, marginal cost, those sorts of things. And the scalability for us is probably the one that I think is the most critical to get right. I think the question on growth, if we don't know where it's going to come, the last thing we want is to be in a market -- and I've seen this with multiple competitors over the years -- where our back office can't handle the growth. That is the -- that is one of the true failures of a business model. So the more -- these cloud platforms are much more scalable than our old mainframe platforms. And what we don't want is a fantastic year someplace. And then our service degraded because we're not processing quickly and those sort of things. So that -- those sorts of benefits you want to see if we do it right. But they're absolutely critical to get those -- keep all of those lines going up the right direction.

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

U.S. question?

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

Yes, I'm sorry, U.S., Barry, excuse me.

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

Yes, I'm happy to dodge (inaudible) .

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

What are you going to do next?

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

Well it's a great question, Jon. But the way I would think about it is it's not like we are currently the world's -- the manufacturer of the world's greatest fax machine. And technology is going to displace us. People will retire. And we -- we're not a VA company. We are -- we're a retirement company. As you say, we used to do fixed annuities. We transformed it into VA, which was largely because of the consume -- the emerging consumer centricity of the product at that time and the fact that it was -- it wasn't now today. And perhaps even more so, is purpose built for the environment. But we're emotional about VA in this environment. If interest rates were different -- we've demonstrated the capability to build-fix. We -- you'll see us innovate in the coming months and years probably on the index product as well. But we're a retirement company. And we think that given our what we believe are clearly demonstrated superior capabilities in that space, that for us to say, oh, we now want to become a cheap term writer or something like that is too far afield. So expect us to continue to be a retirement company and doing things around the edges of retirement because we will all age, I'm living proof of that. And people will retire, they will need these products. And I think as we try to say in the presentation, as the years go by, the people that probes that conventional retirement age of 65 need this product even more acutely than the people that are retiring today. And if I could be the Asia guy for just a second, talking about sharing. Years ago, in Asia, we looked at the idea of drawdown products, of decummulation products in Asia. But this is going back 10 years, we did market research. And it didn't seem to be very compelling because the view -- the focus groups at that time was, "No. I want to manage my own money. I know what I am doing. I'm as smart as Warren Buffett. And I can figure this out." And -- but the sort of socioeconomic change that's occurring in Asia, I believe, is and will continue to result in cultural change as well. The idea of the multigenerational household is a foundation of most Asian people's retirement plan is going away. You -- look at the mobility you see in China from West to East, people that never go back to the village, the parents don't leave the village. So you have to think very differently about how people in that gigantic part of the world, where we have this advantaged platform, are going to think about retirement in the future. And I'd suggest it will be very different in the way they thought about retirement in the past. You have to believe that there are skills resident within this group that, not next week or next year but over the next decade, could be very usefully and profitably applied in Asia. I hope you're okay with that. Yes?

A - Unidentified Speaker

(inaudible) Okay, yes?

Q - Unidentified Participant

(Peter Palese) from (The Mind Trust). One of the traditional ways that fast-growing life companies tend to get into trouble has been around misselling of products. Could you explain how you can give us comfort. And how you get comfort, actually, that the 600,000 Asian agents in Asia are not incentivized to sell the wrong product and -- because it's a natural sort of bias given the information (asymmetrically) that there is?

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

Okay. Nic, do you want to?

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

I mean, no, it's a very good question and a very important topic for us. Everything that we do -- I mean, there are so many controls in place in relation to that, starting from the level of education with the people that we take in across the region have to have, the minimum levels. In some countries, those are set by regulators; in other countries, we set them ourselves. Every one of our agents is licensed. So they have to pass a certain level of exams. And those exams get tougher depending on the products that they have to sell. The structures -- the payment structure of products that we offer in the vast majority of cases, pretty much everywhere in fact, they have to be approved by regulators. So if you like the law that were -- that represents commission is something that is -- that gets sanctioned. In some of the countries, there are regulators implied -- established limits as to the commission that you have to pay. So really, there is no give in that sense. The advent of technology and all the stuff that Lilian showcased, that's some of the -- at the very modern point of sales systems allow us to ensure that in going through the needs-based analysis, that suitability has been assessed, where required under the rules or more generally. And affordability has been assessed. And you can build quite a lot of the conduct-type controls kind of at the point of entry. There are the normal cooling-off periods. We don't see a lot of products -- a lot of people falling away during that cooling-off periods. And again, they'll be of different lengths, depending on the market. We have happy calls, as we call them, to make sure that -- and on a sample basis, of course, when you're writing a million policies a year, you can't necessarily reach out to a million people over that period. But to make sure that people understand what they're buying. Then, of course, you see what people do once they have -- once they are with you, once they're with you. And the fact that, as I said earlier, 95%, on an annualized basis, of customers stay with you is key because it means that they did buy the right contract for themselves. And finally, the fact that we're reselling a regular premium product, remember, 94% of what we sell is regular premium. It means the customer has been taken through the illustration, has been taken through what it means, that full needs-based analysis. And has decided to commit a more modest amount and perhaps a single premium would be. But to do so year-after-year, often for 20 or 30 years. Now to do that, believe me, they will more than make sure they understand kind of what they're buying. So there are a lot of things in place. And we continually evolve them because of our own standards or as regulations become -- introduce new requirements. I could speak for an hour on the topic. But kind of in the interest of time, hopefully, I've given you some flavor as to some of the things that we have in place.

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

And (Peter), we would do all the normal audit checks down to the -- down to an individual adviser level you would expect in the metrics that Nic's talking about on persistency. You saw on the software that came up, that's one of things on the agents' tools. So it's measured to the producer, same in other business. The U.S. can take a profitability by adviser as well. They look at surrender activity to sell, all those sorts of metrics. But I think Nic hit it. In all the markets, if you start with a good product, right. And then you -- a grandmother, you can't do good business with bad people. You've got to know who you're doing business with. You need local expertise. You need to monitor our situations, check what you believe is true. And we do that across the business units. And again, go back to Nic's point on the persistency; that's probably the final scorecard. The clients should choose not to pay again if they felt it wasn't appropriate.

A - Unidentified Speaker

Okay, Blair, with the last question?

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

Last question.

Q - Blair Thomson Stewart {BIO 4191309 <GO>}

No pressure. Nic, maybe you can help us cut through some of the noise in Hong Kong. I think you've given some data points. But just really what's going on with the underlying business there and the shift to health and protection, one. Barry, if your vision of the U.S. VA market is correct, I guess, it's inevitable that you'll have to think about risk management. And it'll come a point where you have to call -- phone a friend. How do you outsource that in some shape or form? And finally, for the U.K. team, I guess as the business migrates to capital-light savings model, you'll be paying very high dividends by the group at some point, I guess?

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

Okay. So Hong Kong, I guess, as I said when I was answering the question, if you like, on the sales headlines for the region, I'll repeat the same thing in Hong Kong. You have to look beyond the headline, the headline APE, because if you only do that, then you miss the quality story that's happening behind that. So we deliberately pulled out our broker business in Hong Kong. We used to have a 30% market share of broker business in Hong Kong. That's down to a few percentage points. We still do it. But we will only do it with where the broker sells a savings product to a local Hong Kong resident and only when they do that with some protection riders. So we pulled back from the big part of that market that relates to Mainland Chinese money, as I said, for risk and quality reasons. So in the first nine months of 2016, 17%, nearly 1/6 of all our sales in Hong Kong were from brokers; that's down to now 4%, the 20th -- 25th, rather, of our business from brokers. So that's a feature. And that was very deliberate in the way in which we did things. The second thing is the push on health and protection. And really, our main push in health and protection in Hong Kong, it's true across the region, comes from agencies. So we have focused our agency resource on selling more health and protection. In the first nine months of last year, 25% of what the agencies sold in Hong Kong was health and protection. Now that's up to 27% in the nine months of this year. And in the discrete Third Quarter alone, we had 30%; roughly 1/3 of what agencies -- agents were selling in Hong Kong was health and protection. That kind of gives you the trajectory in terms of mix. What that has meant, that the NBP that agencies produced for health and protection is actually up in the nine months of this year by 23%. And it was also double digit in the Third Quarter of this year, okay? So that's the story that belies -- that lies behind the quality story that lies behind Hong Kong. And of course, we've got that happening in our other businesses as well. The -- if you took the mix of health and protection, ex-Hong Kong, across all our other businesses, that's around 31% in the Third Quarter of this year. That's how significant it is. And the NBP of that 31%, in other words, the health and protection, was up 27%, okay? That's the quality story. 30% of mix in Hong Kong, 31% elsewhere, rising at 23% NBP and 27% elsewhere. But just coming back to Hong Kong, really, don't judge us by quarter. If I took what Hong Kong did in the first nine months of this year and compare it to what they did in the first nine months of 2015, you still have a business -- okay, it went up and then maybe came down a little. But you still have a business that produces 30% more APE than two years ago, okay. And 76% more NBP despite the withdrawal from the broker business. And that's what we mean when we say and we're going to be focused on quality.

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

Barry, on risk management capacity?

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

Chad would tell you that the entirety of Jackson is one giant risk management function with a little distribution on the edges. And he wouldn't be entirely wrong. The -- if -- the risk management is a daily, hourly, ongoing activity. And it's done in a very active way. If you -- Chad was talking about the very profitable cohorts of business that were written in the past. And he shows how the profits will emerge from those. And the fact is, even since then, we have gradually derisked through -- by tweaking pricing, by tweaking product. The intensity of the risk that we write in a typical contract today is lower than it was several years ago even though that was -- has turned out to be a very profitable transaction in the past. So this is something that is -- and this is no surprise to you. It's constantly front of mind. If what I really think will happen with guaranteed income retirement products. And it's not going to happen in two years or three years but in 10 years, I think the purchase of some sort of guaranteed income in retirement will become as mechanical as today, the way Americans, when they turn 65, they sign up for a Medicare, which is the government health care provision for people aged 65 and older. And because Medicare has large deductibles and there's copays and so forth, virtually every American citizen in age 65 just mechanically purchases what's called a Medicare supplement policy that fills the gap so that they have relatively full cover -- health care coverage in old age. This will become the Medicare supplement of retirement income. That's what will happen. And I think 10 years from now, the volumes will be huge, which will require not just Jackson but the entire industry to think about how -- where the capital comes from to fund the liabilities that will be created. We've had conversations -- we think about this, we try to think 10 years out. And we've had conversations and have candidly been approached by some people who are, typically, foreign investors, sovereign wealth funds, other large institutional investors in Asia and the Middle East and elsewhere who, like us, belief that there is an enormous opportunity around the whole topic of American retirement and are trying to get their heads around how they can participate. So I think what you're suggesting will -- might perhaps happen will indeed happen and that there'll be the opportunity for someone as capable as Jackson to write larger volumes of business. Then beyond the parts of the business that we want to keep ourselves fully on the risk, there'll be the opportunity for us to write more and with coinvestors or reinsurers -- we could cede it to people. What -- there's a variety of different instruments that you could do to accomplish what you're suggesting. But yes, I think that will absolutely happen. And it's not a new idea to us and something we've been already working on.

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

John, the U.K., just the giant dividend we can expect, would you want to...

A - John William Foley {BIO 4239156 <GO>}

Yes, yes, thanks for the question. It really helps when negotiating with the new CFO. Look, I mean, it's a natural -- it's what you would expect. That would be the ambition. It's our ambition. And we -- and the only word of caution I'd like is that we have a big capital-intensive book that will unwind over a long period of time. So I guess, getting to that nirvana of real capital light, capital efficient, very agile might take a little while as we do the transformation. But it's certainly on the horizon.

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

All right. I think on that, on behalf of all of us, we appreciate your attention, your time, your questions. We'll be around at lunch as well as our extended team if you want to grab somebody privately and ask anything else. And again, thank you very much for all your support. Have a good afternoon.