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Y 2020 Earnings Call

Company Participants

- Ben Bulmer, Acting Chief Financial Officer, Prudential Corporation Asia
- Laura Prieskorn, Chief Executive Officer, Jackson Financial Inc.
- Marcia Wadsten, Chief Financial Officer, Jackson Financial Inc.
- Mark FitzPatrick, Group Chief Financial Officer and Chief Operating Officer
- Mike Wells, Group Chief Executive & Executive Director
- Nic Nicandrou, Chief Executive Officer, Prudential Corporation Asia
- Patrick Bowes, Head of Investor Relations

Other Participants

- Andrew Crean, Analyst
- Ashik Musaddi, Analyst
- Blair Stewart, Analyst
- Colm Kelly, Analyst
- Dominic O'Mahony, Analyst
- Farooq Hanif, Analyst
- Gordon Aitken, Analyst
- Jon Hocking, Analyst
- Kailesh Mistry, Analyst
- Larissa Van Deventer, Analyst
- Nick Holmes, Analyst
- Oliver Steel, Analyst
- Scott Russell, Analyst
- Thomas Wang, Analyst

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Presentation

Operator

Ladies and gentlemen, hello and welcome to the Prudential 2020 Full Year Results Call. My name is Maxine and I'll be coordinating the call today. (Operator Instructions)

I will now hand you over to your host, Mike Wells, Group Chief Executive to begin. Mike, please go ahead when you're ready.

Mike Wells {BIO 4211236 <GO>}

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Maxine, thank you. Welcome everybody to the conference call today for our 2020 prelim results and on the next phase in the transformation of Prudential PLC into a pure play Asian and African Group with obviously exciting growth opportunities. As you've heard me say in January this year, we have two key priorities, one is to pursue at pace an independent Jackson; and the second is to enable our investors to fully benefit from the opportunities of Asia and Africa. So, today, we're announcing further substantial progress in this journey. Firstly, indicative details in our timetable in H1 2020 for the intended demerger and a summary of what we can say about, at this stage about Jackson's equity story. Documentation will follow in due course with more details as we proceed with the required approvals. We can then give you full details on the timetable for the Q2 completion.

Second, now that we have secured committed bank financing for Jackson, this will support its RBC which we now expect to be above our 450% RBC target level on demerger, again, subject to market conditions. Thirdly, our fully audited financial results are in line with our expectations as highlighted to you in January. I think, this is an encouraging performance given the challenging conditions. And then finally, further details on the preferred route of the $2.5 billion to $3 billion equity raise that we announced in January.

So, I'm delighted to introduce you today by telephone to Laura Prieskorn and Marcia Wadsten, the new CEO and CFO of Jackson, respectively. And Laura is going to give you some brief introductory remarks. We also announced in January the appointment of Steve Kandarian as the independent Chair of Jackson's Board of Directors and we expect to make further non-executive appointments for Jackson shortly. And in February, we announced two new plc non-executive Board members, Chua Sock Koong and Ming Lu are joining the plc Board, both are Asian-based business leaders with skills and experience are closely aligned to our Asian and African future and we welcome them all.

So, also joining me on the call today are several members of leadership team, including Mark FitzPatrick, Group CFO and COO; Nic Nicandrou, CEO of our Asia business; Ben Bulmer, Interim CFO of Asia; James Turner, our Group CRO is with us as well and then we also have our Group in Jackson Investor Relations teams. So, Laura, over to you, if you would pleased to make some short prepared remarks on what you see as the key features of the business and although early morning for you and your team.

Laura Prieskorn {BIO 16580187 <GO>}

Yes. Thank you, Mike. I'm excited to speak with you today about Jackson's outlook and hard work towards independent. Over my many years at Jackson, I helped guide growth for regional firms for a leading US annuity provider. Throughout our history, our culture of ownership and accountability has served us well and we'll continue to do so as we move towards an independent public company.

Our 2020 results highlights the hard work of our associates and the steps taken to position Jackson for success as a standalone company. All while navigating our response to the COVID-19 pandemic. As the former COO, I can personally speak to the dedication of our employees to our customers, our business partners, our communities and certainly to each other. And although the pandemic persists, we continue to adapt our business

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and deliver on our ongoing commitment to helping Americans seek financial protection as they transition to and through retirement.

From an operating standpoint, given the low interest rate and tight credit environment, we've repriced our fixed in fixed-indexed annuities and reduced our institutional new business, actions designed to optimize our capital position ahead of separation. We actively managed our product offerings, which you saw on our updated variable annuity benefit. Our customers continue to place great value on the investment freedom we offer, and they were rewarded with strong separate account returns in 2020, a significant positive for both them and for Jackson.

We've maintained a leading market position with key distributors and increasingly diversified our channels to market. Customer service and operational standards have been industry leading and remain a priority as we meet customers' needs throughout this period of COVID-19. This collective effort contributed to a 13% rise in VA sales and a moderate increase in fee income, reflecting a higher average separate account balance for this year. In 2021, you can expect us to remain innovative in our approach to the market. We look forward to future updates on the rollout of our registered index-linked annuity or RILA, which meets market demand for equities exposure with a limited downside protection structure.

Jackson is well on track to demerge in the second quarter, subject to shareholder and regulatory approval. You've seen us take important steps, as we prepare to operate as an independent public company. Last June, we announced positive capital transactions with a theme, including a reinsurance agreement and an equity investment. In addition, our hedging strategy continued its long-term track record, protecting our business during stresses, most evident in the stability provided during the volatile first quarter.

As Mark explained in his video this morning, there is recent hedge modeling change, which reduced our year-end RBC, as a revision under the new statutory accounting framework related to hedged credit. It was not a change to our hedging strategy and does not change our view of in-force capital generation.

As we move towards separation, Jackson is pursuing a focused strategy which prioritizes the optimization and stability of capital resources, while protecting our franchise value. This strategy combined with Jackson's well recognized brand and award winning customer service will allow us to further build upon our position as a leading US annuity provider. We'll have further details in our SEC Form 10 filing, but I want to highlight today that Jackson's financial goals, as a standalone company, will be to maintain a resilient balance sheet, provide shareholders with attractive capital returns and profitable growth over the long-term.

Both Marcia and I look forward to spending more time with you here today, but for now, I'll turn the call back over to Mike.

Mike Wells {BIO 4211236 <GO>}

Okay. Thanks, Laura. So, despite quite a extraordinary market and operating conditions, the businesses across the Group have proven, I think, extremely resilient, adaptable and agile, in particular, we can confirm the overall quarterly sales trajectory in Asia continues to improve during the second half of 2020. Our presentation slides up on the web today go into some more details.

By pivoting to a demerger, we're aiming to complete the transaction, excuse me, the transformation of Prudential into a business that's purely focused on the exciting growth opportunities of Asia and Africa sooner than would have been possible under the minority IPO. The spell is out under the IPO route Prudential in all likelihood, could have been a majority owner of Jackson for some considerable time. However, we expect to complete the demerger in the second quarter of this year.

Going forward, the pure play, Asia and Africa Pru is, in a sense, a new company. We want that new company to have the best possible start and have the further financial flexibility to invest in growth opportunity. We said in January that we're considering raising $2.5 billion to $3 billion in equity, primarily to redeem relatively high coupon debt and 2020 was a year of substantial inorganic investment, for example, in Thailand, and today, you saw we announced a very significant 15-year extension and an expansion of our MSB bancassurance partnership in Vietnam.

With this agreement Prudential will become MSB's single partner in nationwide. Vietnam's life insurance sector has significant growth potential with insurance penetration of roughly 1.6%. Being well positioned in these fast-growing economies is an important part of how we can achieve our objective of sustained double-digit growth of embedded value per share, and we believe that there is clear benefits to the Group as an Asian-focused company of increased institutional ownership in Asia and enhancing the liquidity of our ordinary shares in Hong Kong. So, as a result of that, our preference is to raise a new equity through a fully marketed global offering, institutional investors concurrent with the public offering in Hong Kong to retail investors. And this will be undertaken after the Jackson demerger and obviously subject to market conditions.

We spent a lot of time assessing the ways we could achieve our objectives with this potential equity offering. We've also consulted widely with shareholders and Asian focused investors. Our teams continue to get better and better at adapting to the restrictions caused by COVID-19 and meeting the needs of our customers. As indicated on the pre-recorded video published earlier this morning, I also see the virus has reinforced demand for our products and services, as well as aligning us even further with the social purpose of the Group.

So, to that end, I want to highlight what we will shortly publish with our full report and accounts and importantly our updated ESG strategy. Our ESG strategy, there's still many ways in which the business model and strategy support our stakeholders. So, let me briefly go into the three core themes here for you. One, we give people greater opportunity for good health and financial security and we're doing this at scale. We're moving beyond our traditional role of financial protection to provide services that also prevent and postpone illness and we are increasing our focus on the underserved parts of the population. Our multi-product multi-channel approach at agent bancassurance with

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now 20 million downloads impulse show you how active we are doing this. Second, we're stewarding the human impact on climate change, we're setting new and stretching targets our Scope 1 and Scope 2 greenhouse gas emissions with the aim of becoming net carbon-neutral across these two scopes by the end of 2030. And we're assessing similar suitable targets in respect to carbon emissions from our investment. Crucially, as an Asian and African-focused business, we're pursuing an inclusive transition in the market. We're also building social capital, promoting diversity and fostering culture of inclusion, we're prioritizing digital responsibility to our organization, digital capabilities in new markets and engage with new demographics using new product sets and services.

So, to close, we're well positioned for growth and today's announcement shows we're moving at pace and executing on our strategy. And now let me turn it back over to Maxine to take -- to the question-and-answer session. And as you'll be aware, everybody, there is a considerable amount of regulatory work going on, so some of our answers are going to need to be limited until we can share more detail with you, but please bear with it. Patrick, as usual, will pull us back if we stride too far.

Maxine, do you want to open it up for Q&A, please?

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Farooq Hanif from Credit Suisse. Your line is now open.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody, and congratulations today on the steps you've taken. So, just my first question on Jackson actually, given the positive news you've given on the outlook for the RBC ratio and it seems that your capital generation will allow that to potentially recover quite quickly. What are your kind of early thoughts on capital return policy, I mean I know you probably will not be able to give it on details, but just, do you feel, for example, the 450% level is a really good base. That's question one.

Question two, just on Mainland China, the recent regulatory moves to potentially allow greater overseas insurance and share ownership. Just wondering what your thoughts were on those regulatory developments and whether that's actually a benefit or a risk to your business model? And lastly, just on Pulse, so given the very quick payback period that you have on health and protection in Asia, can you guide us a little bit to when Pulse will up here in your P&L, when will it start to be kind of -- and I say, a contributor to the Group? Thank you.

A - Mike Wells {BIO 4211236 <GO>}

So, let me give a couple of general comments, and I'm going to go back to Laura and Nick on the specific answers. So, I think, one of the things with Pulse, it's critical that we keep in mind is what you're seeing is an integration of the channels as much as you are -- with the

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success in each one. So, we're growing agency and they're more efficient and more effective, growing Banca is maintaining sort of a leadership position there. And again getting above in their digital platforms, and then obviously growing now the digital platform with the sheer scale of Pulse now and its success.

But they also intertwined, so you have leads going from Pulse to agency, you have Banca using Pulse technology on their platforms. There is a -- we talk a lot about the reporting on this and we'll continue to give you enhanced reporting on our activities as we move forward. But it's an interesting challenge because it's a bit -- I'd say, the closest analogy we have in-house would be Eastspring. Eastspring's success is both related to its sister companies in the Group and it's also related to its ability to raise money with Asian investors directly and investors outside of Asia who want to invest directly in Asia. And the scale of all of those make each piece more successful. I think, you're going to see Pulse continue down that sort of trajectory. So, we'll keep giving you more detail, but I think you -- if you pull it apart you underestimate the value of those intersects.

So, Nick, do you want to talk a little bit about -- I'm sorry, let's go Laura first on what little you could say about capital return given the current SEC filing. But a little direction on your views on that, and then, Nick, on the other two, if you would, please. Laura, first.

A - Laura Prieskorn {BIO 16580187 <GO>}

Yeah, sure. Thank you, Mike. There is couple of points I could share the health of the existing in-force book is very strong. And we would of course expect it to be the case with the equity markets near all time highs. The other point I would share, to keep in mind, we have a long history of capital generation and remittances to Prudential. And then in relation to our overall financial goals, I would just point out that we will have more detail available in our upcoming SEC filings.

A - Mike Wells {BIO 4211236 <GO>}

Nick, do you want to share ownership rules in China and Pulse?

A - Nic Nicandrou {BIO 15589153 <GO>}

Sure, Mike. Hello, Farooq. I mean, the share ownership rules in China, I don't -- are not really a benefit or risk to our franchise. It's a 50-50 JV. Yes, we are interested in buying up, but that's now dependent on our partner. So, nothing -- and as I said, no, neither a risk or a benefit.

In relation to Pulse, I mean, clearly, the cost that we are incurring both technology and marketing are included in the numbers that you see. On average, it costs us about $1 to secure a download, that give you a sense of some of the marketing spend. I mean, the technology spend is part of our change agenda. And that we have a significant spend each year. So, we are redirecting more towards this particular platform.

The sales that we're generating and we've generated $3 million of APE -- $3 million of APE from direct to consumer small by product. But importantly, we generated $208 million of APE from referrals to agents, at least 34,000 agents have done at least one sale from

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referrals that has come from Pulse. The economics of that are very similar to any of our products. And given that the vast majority of what's been sold tends to have a health and protection flavor and tends to come from the markets of Hong Kong, Malaysia, Singapore, Indonesia, which is where our downloads are greater. They're very rich from a margin perspective.

So, the economics are there in the numbers that you see, both in terms of top line new business value and contribution to IFRS. I mean, contribution to IFRS would lag, this is like any other startup, but it's part and parcel of what we offer, it's integrated with our other channel offering.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you. I mean, just to come back on the share ownership, I was referring more to rules about individuals in Mainland China and their ability to buy foreign insurance products and liberalizing now, but I'm happy to take that offline. But -- I mean, there is a lots of questions on line, but that's what I was referring to more than your ownership of the JV.

A - Nic Nicandrou {BIO 15589153 <GO>}

I see. So, you're referring to the announcements that we made on sales priorities for 2021?

Q - Farooq Hanif {BIO 4780978 <GO>}

Yeah, that's right. Yeah.

A - Nic Nicandrou {BIO 15589153 <GO>}

I mean, yes, we note that with interest. They did say that that they will study how, when and if so how to open up the capital account. The capital account is the component of the $50,000 a year. That can be directed to buying effectively protection linked products or protection products with the saving element. I mean, clearly, if that was to come to fruition, it will unwind some of the restrictions that were imposed in 2017. And it may even lead to using the UnionPay Card again to affect to transactions, but we're getting ahead of ourselves. It's positive that they're looking at it and it reinforces the -- it will be positive for our franchise where that to -- where they too conclude to reopen aspects of the way in which people bought that were in place pre-2017.

A - Mike Wells {BIO 4211236 <GO>}

Farooq, thanks for the questions. Appreciate it.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you.

Operator

Our next question comes from Jon Hocking from Morgan Stanley. Your line is now open.

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Q - Jon Hocking {BIO 2163183 <GO>}

Hi, there. Good morning everybody. I've got three questions please. Firstly on Indonesia, I think from the dependencies that you've got sort of increased market share of traditional business is about 20% or so. I wondered whether you could comment on where you see that topping out and how do you see the return profile for the traditional product versus what you've historically written in that market. That was the first question.

Second question, in the slides you've sort of reiterated the guidance you have before by the double-digit EEV growth per share going forward for the sort of pro forma Asia Group, slower than the traditional guidance you've had sort of doubling the business every sort of five to seven years or so. Is that predominantly a function of the sort of discount rate coming down on the EEV rates over the last few years or is there something structurally you're seeking there in terms of growth slowing over time. That's the second question. And the final question, on the holdco cash, on a pro forma basis, you sort of got guided $13.5 million [ph] at the end of 2020, what sort of level do you also run in terms of central liquidity going forward once you complete the restructuring? Thank you.

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Jon. Nic, you want to take Indonesia and then, Mark, the EEV question and holdco cash question please.

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. Let's start. Hello, Jon. Let's start with Indonesia, we've done a number of things this year, the -- we've launched and there is more detail on Indonesia specific slide, but we've launched around 60 new products. Remember, we've been saying for some time that we're looking to broaden out the offering that we have in place. And in the past we had effectively a link protection flagship product and that's pretty much what we did linked with riders, over the last few years and it a further accelerated this year. We started offering standalone protection products whether that's hospitalization, whether that's simple critical illness, whether that's medical. Clearly, not linked nor having a savings element, so to speak, pure protection. And the vast majority of those 60 products were on that nature.

Now, against the backdrop of the pandemic, where there has been an enhanced demand for all sorts of protection, and against the backdrop where people are a little more worried about the financial outlook. Selling pure protection with lower ticket sizes has found favor with consumers in Indonesia. So, that's what you see, many more products, pure protection in nature, both by with lower ticket size. So, even though, just to give you some more color. Even though our sales are down 30% year-on-year, the number of cases that we wrote in Indonesia this year is up 10%. That kind of gives you a sense to how we are fulfilling demand in the current environment. The contribution to our sales from pure protection has gone up to around 38% of our sales, up from 8% the year before.

So, that's what's driving that uptick in the market share for traditional, it's not endowment, it's not guarantee type products, it's candidly pure protection without a savings element.

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At the same time, we pushed very hard on the sharia component of our business, we are market leader in Indonesia, we have 35% market share. So, as we have created or manufactured these products, we've issued them both in conventional and sharia format.

And the sharia segment is highly underpenetrated. We have a 35% market share, we have 400,000 customers, to give you a sense, Muslim population of Indonesia is 220 million. So, again, lower-ticket size products found favor with people who buy Islamic insurance. And again, which is why even though our overall sales are down, APE from sharia products was up 6%, NBP was up 27% because of the high health and protection component and we sold twice as many policies as the year before.

So, despite the fact that the onset of COVID in April of 2020 slowed down, if you like, or halted the progress that we have made in the previous two months in growing this business, we've continued to retool increased -- broadened our product set and finding favor with consumers in the current backdrop and we're a better business for it.

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Nic. Mark, do you want to -- EEV and holdco cash please.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Yeah. Sure. Jon, so on the EEV, the double-digit EEV growth, not trying to signify or signal anything particular other than an element of actually allowing for slightly lower rates in our projections, and also acknowledging there is a somewhat larger base to grow from. So, there isn't anything particular that you're missing in that particular piece.

And as for the $1.5 billion central liquidity, very comfortable with that level. I think, we did expect a lower level of central cash to be held post demerger. And as the Group demerges from Jackson, our central costs will be coming -- continue to come down, interest come down in light of the potential equity raise. So, all of that will mean that we've got a very good cover in terms of our central cash level. But we're very comfortable with what it is that the level it is at the moment, and would expect to see that come down a little bit as we get the other side of Jackson.

Q - Jon Hocking {BIO 2163183 <GO>}

Thanks so much.

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Jon.

Operator

Our next question comes from Colm Kelly from UBS. Your line is now open.

Q - Colm Kelly {BIO 19140684 <GO>}

Yeah. Thanks a lot. I think, given the guidance on the US demerger, I'll focus mainly on Asia. The first question on the health and protection mix, you've made very good progress on increasing that mix over time given the product strategy. I know the full year, the percentage is slightly lower than that at the half-year at 27%. So, is that just a function of market disruption in 2020, or is there anything more related to the use of more digital distribution in 2020 that influence that health and protection mix? That's the first question.

The second one is on solvency capital specifically to Hong Kong, so I noticed that ahead of the move to the Hong Kong RBC regime you've put in place some good derisking of reinsurance treaty ahead of that. Is there any -- are there any further management action you are looking to take with respect to the Hong Kong portfolio in advance of the move to be RBC framework? And related to that, I suppose in the context of the fact that the move to the Singapore RBC actually benefited the Group solvency -- the Group LCSM but by $2 billion or more. Are you able to provide any more updated guidance on what you think the impact to the Hong Kong capital levels will be as you transition to RBC? So, I'll leave it at there. Thanks.

A - Mike Wells {BIO 4211236 <GO>}

Appreciate that. Thanks. Nic, do you want to go by health and protection mix and then Mark the capital regimes and the actions required going forward for RBC including probably should mention the Group wide supervisory regime as well.

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. So, on the health and protection mix, the reason -- candidly, the reason it changed is because of how significant in terms of case size, Mainland China businesses in Hong Kong. We had the benefit literally of a month in 2020 of just over with pipeline business. And that factor alone is that's why that overall ratio. When you go beyond that and you look at market by market, the health and protection mix actually increase in seven of our markets, including places like India, which was strong, Singapore, to name a few, Vietnam, Thailand, so a few markets. So, that's really what's driving and it's on the back of this that really we've seen margin improvement in 10 of our markets last year notwithstanding the drop-off in overall sales.

Look through other metrics, the health and protection renewal premiums were up 8% to $6.3 billion. This is the totality of the premiums that we collect from in-force as well as new business. Look, that the contribution to IFRS earnings of our health and protection business, if you like, the underwriting result, that was up 19% to $2.6 billion. And, of course, at 19% increase compared to 14% for the life business. Of course, the contribution to that total has increased to 74%. So there is nothing that we're seeing in the mix of that portfolio that is making us anything other than happy and we clearly would like the border to open and for that high ticket size critical illness to sales to Mainland Chinese customers to resume. And we've shown a lot of innovation in that space and we are ready to go once the border opens up.

A - Mike Wells {BIO 4211236 <GO>}

Mark, on RBC management actions.

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A - Mark FitzPatrick {BIO 20178326 <GO>}

Colm, maybe if I step up a level first to GWS and then I'll cover off the RBC. As you can see we've noted that the Group-wide supervisory regime is that much of that -- is that much closer, we're expecting the rules to come into operation on the 29th of this month. The rules in the framework will be effective for ourselves and upon designation by the HKAA in the second quarter of 2021 and that will be subject to certain transitional arrangement.

So, the GWS methodology is largely consistent with that, which we've got at the moment in terms of the LCSM and we don't expect any significant changes, there is a potential upside as I think I've mentioned before in terms of what might happen in terms of the debt instruments that all of them maybe recognized, and therefore, it would act as an uplift to our LCSM ratio. In terms of the RBC 2 for Hong Kong, we continue to work closely with HKAA on that and as we move towards that clearly as Asian markets generally transition to a more realistic solvency regime, we tend to see benefits. And that was kind of I suppose what you were alluding to and referring to in terms of Singapore and we would expect to see benefits in terms of the Hong Kong regime.

And that is still to all to settle down so I don't want to kind of get ahead of ourselves and kind of giving you any kind of number as soon as we are comfortable as soon as a regulators comfortable, we'll be able to share something more fully with you on that side. But generally speaking, as the markets move towards these new kind of realistic regimes, we do see a very significant benefit coming through.

Q - Colm Kelly {BIO 19140684 <GO>}

Excellent. Thanks a lot.

A - Mike Wells {BIO 4211236 <GO>}

Thank you.

Operator

Our next question comes from Scott Russell from Macquarie. Your line is now open.

Q - Scott Russell {BIO 15107992 <GO>}

Yeah, good afternoon, everyone. Three questions if I can about Asia. Firstly, in Hong Kong, I'm interested in the half on half increase in margins that was surprisingly strong in the second half, which is surprising given rates were lower in terms of assumptions and acquisition costs would have been higher, the policy as well. So, maybe just a bit of explanation how does the margin was strong there in the second half, is it all products, product-related or is it something else going on?

The second question is just picking up on Nic's comment about MCV [ph] cross-border sales being ready to go. And I've got Slide 63 in front of me here where I'm wondering what's the source of the data is here. There have been some reports of agents who are

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based in Hong Kong who traditionally focus on MCV on visitors who are currently residing in Guangdong until the border reopens and then they transition back to Hong Kong to continue their cross-border sales. I'm just wondering if that's an opportunity for Pru, whether you have agents, and some of your agents focus up in Guangdong at the moment, and that's where you're getting the confidence from surveying future customers.

And then finally, just on the orphan estate, the unallocated surplus now at $5.2 billion, this is a headache to value, but I'm more interested in why it keeps rising, what does that say about the level of bonuses that you're paying on with-profit policies at the moment. Is there anything I can infer there? Thanks very much.

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Scott. Nic, why don't you do the first two and then Mark, on the third?

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. The -- if the increase in margin in the second half is purely a protection, the business mix change, I mean, clearly with the border closed, our attention turned squarely on the development of our domestic franchise, maybe I can give you a little more color. Historically, in the domestic franchise, we've targeted the affluent, the high net worth, around 500,000 of our 800,000 domestic customers are in that segment. And we -- over the last 12 or so months, 12 to 18 months, really we had a twin strategy. The first one was to upsell to this segment, an example of that being the qualified deferred annuity plans, which were launched in 2019 and through which we secured around 16% market share. So, that shows the power of our franchise. And to your -- to the specific question, recently we've refreshed the high-end critical illness offering in this for that particular segment.

Now in addition to that, we've sought to broaden our presence in the mass affluent in the mid-segment. Again, there, we launched VHIS, the Voluntary Health Insurance Plan in 2019, that was an entry-level product. But in the second half of this year we extended it to a mid-tier product. So much so that our market share of that particular offering increased from 7% or so percent in 2019 to more than 20% in the second half of this year.

And there were a number of other standalone protection products that were also launched again like we've done everywhere else, in light of the pandemic, in light of enhanced demand for protection. And that's really what you're seeing coming through, I mean, clearly, with the 600,000 downloads that we had on Pulse, 50% of those were new to Prudential. Again, our agents were given leads and really the first product that is often sold to that particular cohort tends to be a protection product. So, that's really what's driving it is an uptick in sales from agents in the second half of the year, relative to the first half and because agency does a lot more health and protection, that's what's driving the uptick that you see.

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Nic.

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A - Nic Nicandrou {BIO 15589153 <GO>}

Less to do with rate and less to do with the savings component, really a lot of the profit comes from health and protection, savings is participating inevitably the margins on those are more modest.

A - Mike Wells {BIO 4211236 <GO>}

Yeah. Mark, do you want -- with-profits, please.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Sure.

A - Nic Nicandrou {BIO 15589153 <GO>}

(multiple speakers) I didn't answer the question on agency. Yes. I mean, we are clearly, maintaining our distribution infrastructure is key, a lot of the agents that were purely are Mainland China focused haven't been very busy in 2019 and remain. So, some are in China, not all but clearly the comp market in China, it's against the rules. A number of others refocus their efforts into the domestic market, and as I said on the last call fed by, often fed by leads from Pulse in order to help them establish a client base.

A - Mike Wells {BIO 4211236 <GO>}

Okay. Mark?

A - Mark FitzPatrick {BIO 20178326 <GO>}

Okay. So, on the with-profits fund, I get that it maybe a messy thing to or difficult thing to value but it's incredibly valuable thing to have in the business. So, as you say, we have $5.2 billion of unallocated surplus and that's really there to fund future bonuses. And it's a bit difficult to read into bonus rates from that number. It clearly grow, the business grows, the market returns generate more capacity to be able to pay future bonuses and that's kind of message what is held by the unallocated surplus until it's converted into terminal bonuses.

So, really kind of see that as a capacity for future bonuses that would come out to the policyholder and then clearly a percentage of it would come out to us as a shareholder. So, it's an incredibly valuable component of the Asia business. In terms of the way the risks are pulled and our earnings from them tend to be fairly back-end loaded, but it's an incredibly powerful and key differentiator.

Q - Scott Russell {BIO 15107992 <GO>}

Thanks, Mark. Can I just quickly pick up on that, I mean, I guess, I'm trying to understand why it you're not actively trying to reduce this because it's money that's stuck there that doesn't really belong to anybody. And if you're paying out, it gives you power to pay more bonuses to with-profit policyholders. Is it going up simply because the asset balance increased during 2020 or is it going up because an insufficient level of bonuses paid out for policyholders unallocated to...

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A - Nic Nicandrou {BIO 15589153 <GO>}

If I may, the unallocated surplus is the surplus over and above assets share. So, it doesn't -- it's not correlated to if you like the phasing of your annual or terminal bonuses. It simply reflects the overall size of the firm. This is a $63 billion fund that it needs to have a sufficiently healthy state in order to provide the investment freedom and to provide the working capital in order to continue to grow that particular fund. So, we don't think it is out with the size of the overall fund. And as I said, it provides the investment freedom that allows us to manufacture yield that allows us to compete in the savings part of the sector here in Hong Kong.

Q - Scott Russell {BIO 15107992 <GO>}

Okay. Thanks, all. I appreciate the detail.

A - Mike Wells {BIO 4211236 <GO>}

Thank you.

Operator

Our next question comes from Oliver Steel from Deutsche Bank. Your line is now open.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you very much. A couple of questions. The first is, I wonder if you can just give us a little bit more granularity, fourth quarter on fourth quarter and third quarter on third quarter in terms of sort of VNB growth of the different markets, because otherwise it's incredibly difficult to try and sort of forecast ahead over the next 12 months for new business.

The second question I've got is really on the sort of Group structure and the management going forward. I mean, you're becoming an Asian business, little bit of Africa, but you still got head office and top management in London. And in fact you've got sort of two layers of management now because you've got sort of Head of Asia and you've got sort of Chief Executive of the entire Group. So, I'm just wondering, what are you -- what you see long-term in terms of the management structure and what you see long term in terms of the sort of head office of the Group?

A - Mike Wells {BIO 4211236 <GO>}

So, the quarter on quarter, Nic. I'll let you address that and I think I'll take the Group structure, since I think your question is Oliver's am I here, so I got to come back to that. Nic, why don't you do Q4-on-Q4?

A - Nic Nicandrou {BIO 15589153 <GO>}

Hi, Oliver. I'd point you to two slides in the appendix, slide 59 first, which gives the quarterly progression in the middle section of that slide on new business profit, admittedly it's not by market, but it did give you uptick, you see 28% uplift Q3 on Q2 and

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another 40% uplift Q4 on Q3 at least sequentially. And then the second slide that I would point you to is 39, which gives -- in the commentary, some color around the market dimension. And really what we would point is that there are eight markets and they're listed in the first bullet on Slide 39, which have all seen upticks in 3Q versus 2Q and upticks in 4Q over 3Q, including Hong Kong overall interestingly notwithstanding the fact that -- remind you Q2, there was no Mainland China, but important markets such as Singapore, Malaysia, Thailand, Vietnam and Philippines.

So, pretty much mirrors the uptick that we saw in APE. And if you go into the individual country market slides further back from 59th and you will see quarterly bars that -- we don't show the numbers, but they are proportionate to the uptick that we saw in H1. So, it's come across the piece, pretty much aided by agency coming back more strongly, more health and protection being done and just generally volumes going up as we re-tool the business and as we got used to doing business in the current environment.

Q - Oliver Steel {BIO 6068696 <GO>}

Can we work out from these, what sort of fourth quarter on fourth quarter growth was ex-Hong Kong? Because, I mean, you're always higher in the fourth quarter than in the third quarter, but you're normal still in the fourth quarter.

A - Nic Nicandrou {BIO 15589153 <GO>}

Yes, so bottom left of Slide 39, it gives you the numbers.

Q - Oliver Steel {BIO 6068696 <GO>}

Okay. Thank you.

A - Mike Wells {BIO 4211236 <GO>}

Oliver, on the structure. Thanks, Nick. On the structure, look, I agree with a couple of pieces. So, we have about 200 roles now in London, approximately. And I think that's -- that for all of us I'm sure on this call COVID has sort of demonstrated that you work globally and teams don't have to be in the same building. And we have no aspiration to have all of our associates in one location. So, it will start with that. So, you saw us open in India and Shenzhen tech centers even during COVID that do development work for us on Pulse and other tax synergies. And I think there is a cohort of the team in London that is absolutely critical and difficult to replace in Hong Kong and are close to the stakeholders they interact with.

So, I think, that's from a staffing structure, that part of your question is key to us. And candidly, I don't think the rules are -- I think, they're likely to be more expensive in Hong Kong than they would be in London as we have competitors there that a transition to RBC for us is straightforward. I mean, but for some of these firms, it's quite a material change and they need the kind of people we have with experience they have to do it. So, those roles are very much in demand in Hong Kong right now and that just in Asia in general with the direction of travel as Mark alluded to on regulatory models.

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On the overall Group structure, I guess, the management structure, I mean, first off, we've got a lot to do, as you see laid out in the work programs there. But I have a personal view on this over my 26-plus years here and that there is always a lot of focus on one individual of these organizations, it's true of the industry, not just us but actually the reason we've got as much done as we have in the last three years is the complementing skills we've got as a team and whatever the final structure is over the Group over time it should one be appropriate for the Group, but it's also based on the skill of the individuals.

These aren't -- we're not looking to replicate anybody else's management model. And I think if we could -- the one proof point, I think, we have over the last three years without question is just the sheer amount of work we can do at the exact level and at the level below that even with less people and the level below that. And I think that more decentralized approach to decision-making and management more of a team view versus one person making all the calls sort of structure is extremely effective for the Group to move this fast. And so I think over time the model will evolve both from a -- where you see us hitting the cost targets that we put out and then it will stay appropriate with the location and scale of the business.

But as you know I've talked many times, we all travel in a normal environment, and we're all locked down in last year in an unconventional environment and we made sure we add exec in each of the key markets and that's served us well when you look at these results, not just on the performance side, but on the strategic side. So, I think, that's -- we're well structured now and if we're going to change that we will come back to you and tell you what that's going to look like, but it's -- I would just -- I guess, my bias would be to guide you towards the combination of skills versus there's any one individual -- as any one person up 24 hours a day making all these calls, because we now work pretty much round the clock and that's where this bandwidth is coming from. And I'd say that's true of the new management team in the US and certainly true of the teams on the ground in Asia, and where we have in group. That's all working because of the leverage in it, not because of any one individual or where they are sitting.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you.

Operator

And the next question comes from Kailesh Mistry from HSBC. Your line is now open.

Q - Kailesh Mistry {BIO 15396670 <GO>}

Hi, good afternoon. I'm Kailesh here. Thank you for taking my question. First one is just coming back to the points around Mainland Chinese sales in Hong Kong. Two points here, has imported persistency held up well given the broader restrictions impact on the ability to access policies medical system et cetera. And coming back to Scott's question around what makes you confident that this market will look like what it was pre the second half of 2019 given obviously GBA expansion connect some change in sort of critical illness pricing on the Mainland et cetera and obviously what COVID has done to protections.

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Second question is around Pulse, thank you for the additional disclosures, one thing I just wanted to ask is, am I reading Slide 36 correctly in that 3 million [ph] is the sort of very, very low margin business and the other 2 million and 5 million [ph] is effectively consistent with other health and protection you sell at the Group level. If so, can you just talk a little bit about plans to upsell effectively the higher margin product into the people that have either download or got to do the bite-sized product.

Thirdly, just if you could provide any comments on sales momentum in the first few months of this year, perhaps splitted into Hong Kong and then ex Hong Kong. And lastly, just on management KPIs for the pre-Group post first half of this year, I guess, what would those KPIs be going forward, because obviously the structure of the group has changed and then you're hoping to get some change in the shareholder structure as well. Thank you very much.

A - Mike Wells {BIO 4211236 <GO>}

Can you shout me a little bit on the last one, on KPIs, what are you -- give a little more detail on what you'd like in that question? I want to make sure I answer that specifically.

Q - Kailesh Mistry {BIO 15396670 <GO>}

Yeah, yeah. So, obviously, you've talked about EEV per share growth of double-digit.

A - Mike Wells {BIO 4211236 <GO>}

Yeah.

Q - Kailesh Mistry {BIO 15396670 <GO>}

And then, you've talked about dividend tied to operating cash generation. But what are the KPIs on which management or the financial KPIs that management would be remunerated upon, and I guess that fits into the G part of the ESG debate. Thank you.

A - Mike Wells {BIO 4211236 <GO>}

Yes. That helps a lot. Thank you. So I guess, Nic, I'll give you the Mainland China. But just a general comment I'd make first is, remember, we've been operating in Hong Kong for decades, so where COVID is unique in scale, we've seen pent-up demand come back multiple times, and I think the structural demand for health products and protection products across Asia clearly is up with COVID and I'm not trying to make a virtue out of that. But the reality is it's brought the awareness of not only that the availability of products that can offset this risks, but the out of pocket costs of not having it much more relevant to a retail consumer and certainly policymakers. But Nic, will talk about Mainland GBA critical illness pricing.

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A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. So, on Mainland customers persistency, no change to what we've seen historically, between 97% and 98% of customers that were with us at the beginning of 2020 ended up with us at the end of 2020. No significant premium collection issues. In 2020, we

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collected $6.1 billion from the nearly 500,000 Mainland China customers that we have and because of the new business that we wrote the previous year and early in 2020 the renewal premiums were up 6%.

So, nothing on the in-force book. Look, our confidence comes from understanding those customers. The survey -- and sorry, there was a question earlier that I didn't answer, it was not the survey undertaken by agents that are in-situ, we use proper firms. It's something that we do twice, in fact, we've increased to three times a year. It's done statistically and validly in a statistically rather valid way across a number of parts of China and the trend has been consistent. The people do look to Hong Kong to buy the high-end medical and critical illness policies because of additional -- because of some pricing advantages, because of certainly perceived and real and better medical treatment. And as I said, because you can get multistage and many more conditions, multi-condition products that are not yet available, given the regulations in China. So that's why we are confident that the demand, once the border opens, the demand will return.

On Pulse, if I can refer you to Slide 36, effectively, you are right, the way we are thinking about this is 20 million downloads and nearly 8 million registrations, which means people have given us the name and means of contacting them and really the next stage is to then curate those registrants, so to speak. This is where the -- whether it's the 37 digital products that we currently have, some are premium, some are small bite-sized premiums, we're talking about a $1 -- anything between $1 to $10 a year, whether it's some of the packaged subscriptions, that's a combination of maybe some nutrition advice, a virtual personal trainer, some telemedicine, maybe some protection hospitalization.

All these are to curate and increase the stickability to reuse, a user coming back. And then as we curate and we learn more about customers then that is transferred as in the form of a lead to an agent and the $208 million is exactly that it's the normal products that an agent would sell as part of their brief case. Now, what we're doing on Pulse though is we are connecting, we are putting the entire lead management and activity management, we are integrating and enhancing the activity and lead management systems.

So, effectively, a referral can be made on the same platform, and we're also adding a virtual advice technology on it, so again on Pulse someone can use video calling to effectively undertake a sale virtually all the way through to an e-signature and an electronic payment. So, we are integrating the entire fulfillment process from a someone downloading the app registering taking one off the 20 odd services and 37 products or subscriptions and that's integrated all the way through with our activity and lead management system through to fulfillment. That's the power of this -- of the platform that we have.

Year one was directed to growing -- attracting more customers. And clearly, we need -- we want to grow that further and an increase, if you like, the proportion that dropped through at the bottom of that funnel. Year two will also move into servicing of in-force customers as well as, I guess, trying to up-sell to those at the appropriate point in time.

A - Mike Wells {BIO 4211236 <GO>}

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Okay. And I think, Kailesh, on that one of the things that we've said to you all a couple of times in the past is, one of the objectives on Pulse and objectives in general of the business was to acquire clients at a faster rate and not just one at a time whether a formal meeting within a bank lobby or a normal sales process. And clearly, we've had a good year of doing that. And then the -- as you see from some the information, it's -- we're trying to broaden the products, the channels, the cohorts of people we do business with, Pulse is bringing a younger client in every market than we get through our traditional channels, I don't think that's surprising to anybody in the call, but it's access for us to get another demographic and that -- those things are structurally key to sustaining the kind of growth we want.

I think, we're going to do a trading update on the first part of the year yet today. So, I'm going to leave that one unanswered, but on the KPIs management, the Rem report will be out shortly and I'll let that speak for itself. But we're aligned with the public statements and goals that the firm has stated and very much aligned with shareholder return in the Rem. And then obviously we're aligned with ESG and the comments I made at the beginning of the call to make sure that all those things are true and I think they just go through the broader category of management being paid on its public commitments. And so there is no -- I'll let that report stand for itself and if we need to talk when it's out, I can schedule some time to go through that.

But I think it's well structured remuneration models given the breadth of the objectives we have as a group, and for the year, and they're all concurrent right, we've got to grow the business, grow the value of the business, grow the return of the business while we're doing all the strategic objectives we've stated and that's how people will be paid.

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Q - Kailesh Mistry {BIO 15396670 <GO>}

Thank you.

Operator

Our next question comes from Andrew Crean from Autonomous. Your line is now open.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, everyone. Three questions.

A - Mike Wells {BIO 4211236 <GO>}

Good morning, Andrew.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning. Firstly, on the specific relationship, I mean, I know you've said you want to take majority control, it's up to them, but could you give us a bit more context? I mean, is it actually thinking about selling safety, I know they have done something with Allianz, what's the timing on that, would you look to try and take the whole 50% often or quick in control? That's one thing.

Secondly, this LCSM capital ratio, which I think is about 373% or 370%-ish with all the senior debt, can you give us some sense of bandwidth as to when that ratio means that you've got excess capital for inorganic, when that ratio falls to certain level you need to do capital preservation. We've got no idea whether 373% is a good number or bad number, some bandwidth around that would be helpful.

And then on the Hong Kong border opening, broadly, I think, the assumption is that business returns to normality but will there be a time, is there -- given the fact that Board has been closed for over a year, for now a year and a half and there was any rate disruption before then. Is there any likelihood that there will be superannuated sales from pent-up demand from the years when the border was closed? Thank you.

A - Mike Wells {BIO 4211236 <GO>}

Okay. So, nothing to announce on the negotiations or discussions with CITIC on structure, as I've said before, both firms are -- view the business as a quality property. The regulatory landscape has changed over the last 24 months. I don't think there is a read across. I'll let Allianz comment on their structure, but they had a different structure different business than we have. And I'll let them speak to their trade, but I don't think it's particularly meaningful given the -- it was a different relationship different ownership structure than we have. (multiple speakers) I'm not going to comment on that sort of strategic conversation. What I have said before publicly and I will stay with this is, we would like to own more of it.

I think, CITIC also see that as a valuable asset. I don't think those of you that follow CITIC probably have it as a huge part of the some of the parts for them. So, I think, it's candidly more valuable to us than it is to them. And we're growing the value of it annually because it just continues to outperform the market there and it's probably one of the cleanest balance sheets of any insurer in China. And you saw last year under the bank channel, which we've taken that model from our playbook and the balance of Asia, it was incredibly resilient in COVID even when markets were closed, the banks weren't completely closed. And so I think we've had a -- the business model, it's great. You see the margins at 85% are solid, 80% of the country plus under our footprint now.

So, I mean, it's a very, very good business as is, but I don't want to negotiate with CITIC on a call like this. So, I'm going to keep the percentages and things guarded. I think, they -- as I've said before a control premium for a small piece of it probably does it make sense to either firm, because I don't think our shareholders would like the price for that. And I don't think they would -- that wouldn't make sense for them to do. So, there is a -- and they are a good partner. And I wouldn't underestimate the value of that as we enter new markets and continue to move forward. On LCSM, it is a good number.

And I'll let Mark comment on that and Nick comment on border opening one more time. Mark, on capital.

A - Mark FitzPatrick {BIO 20178326 <GO>}

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Andrew, so LCSM, yeah, as you say, the level that we're at the moment 328% at the end of the year ex-Jackson about 323%, and then if you add on the senior debt as you get to the 370% number that you quoted. So, we're very happy with that kind of LCSM risk appetite is really derived from client stress test. And we're very comfortable within our risk appetite. You've seen the impact of the stresses and that we -- very comfortable buffer above the regulatory minimum. And while we're pleased and it's been in place for a little while now, it's still relatively early. We want to make sure the GWS settled as we expect it to settle. And before we start talking about any potential ranges in terms of which we're looking to operate. But as things stand, we are very comfortable with the level that we are at and it enables us to do what we need to do.

A - Mike Wells {BIO 4211236 <GO>}

Nic, the border.

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. Hi, Andrew. I do expect there to be some pent-up demand not least because like everyone else we'll be ready with a number of customer campaigns. But I don't think that that is what's going to influence the shape of the recovery. I think, the determining factor will be whether the border opens up at a whole of China level or whether it opens up firstly with the neighboring provinces and then gradually over time, I guess, with other parts of China. And I think that's what's going to drive the shape of the recovery less any pent-up demand, which as I said, I do expect it to see that. We have seen that elsewhere when the markets have suddenly reopened and with campaigns we've tried to access it. But I think it's the pace at which the various parts of China, open air corridors or otherwise with Hong Kong.

A - Mike Wells {BIO 4211236 <GO>}

And I think, we are much faster, much better at dealing with reopenings than we've ever been in the history of the Group and you see that across different markets in Asia. Also in China, we have initiatives with the Eastspring with that would be that's doing well. There is work with -- I mentioned earlier, we opened the Shenzhen tech centers doing well and then the GBA where we have a strategy there that we're implementing as well. So as -- it's not just the CITIC partnership is doing well, but the other activity is part of a broader Mainland China strategy. So it's -- we're pleased with the breadth of that and obviously relative to market very pleased with the year-on-year growth, and as you see the growth of the earnings.

Q - Andrew Crean {BIO 16513202 <GO>}

Thank you.

A - Mike Wells {BIO 4211236 <GO>}

Thank you.

Operator

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Our next question comes from Larissa Van Deventer from Barclays. Your line is now open.

Q - Larissa Van Deventer {BIO 21570130 <GO>}

Thank you, and good afternoon. Three questions. The first on numbers, the other two strategic on distribution fees, all on Asia. Honestly from the numbers, it's $1.4 billion on Asian in-force business generation, I'll read you the numbers, you don't necessarily need to go there. But basically the profits in the in-force business out of Asia were $2.4 billion in 2018 declined slightly to $2.2 billion in 2019, but then they dropped to $1.9 billion in 2020. The question is, why the volatility and how should we expect this metric to evolve going forward because you would have thought it would be a relatively stable number.

And the two on distribution, you've mentioned why the change towards health and protection products impacted margins into H '20, but you do state the multichannel approach, you have made active investments in bancassurance in the last -- well, last year and then also renewing this year. How do you see the mix in new business profits change from a distribution perspective and then how should we think of the impacts on margin, please.

A - Mike Wells {BIO 4211236 <GO>}

Okay. Mark, do you want to take the first one and Nic, the second?

A - Mark FitzPatrick {BIO 20178326 <GO>}

Mike, I'm just looking at the numbers, so Nic, wants to start on second and then I'll come back to this with first and I'll get you [ph] schedule up.

A - Mike Wells {BIO 4211236 <GO>}

Sure.

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. Hello, Larissa. The first thing I'd say is that all these channels, they're not competing with each other, they're complementary and the level of penetration is what it is across all of our markets in Asia. Actually, what you would want to have and this is what we do is to have as big large a shop window as possible. So, the 600,000 odd agency force, the 20,000 branches, hundred plus banking relationships and now digital ecosystem gives us as wide a shop window across the markets that we're in as anyone, if not better than anyone. So, that's the first thing I would say.

The other is the banks, of course, tend to market a lot to their in-force. It's a very captive audience. They tend to traditionally go for long-term regular premium savings-type products with an element of protection, often death cover. And have we -- not many banks have cracked the selling of standalone protection products. Now, we think with the ecosystem, we have a fighting chance of doing that as we simplify the customer journey and the user experience.

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Banks, because they stayed open as Mike said, as an essential service, the performance of banks was much more resilient across our portfolio, sales were only down 9%, you can contrast that with the overall sales of PCA. And in fact at the second half, there were positive APE of 6%, now it does -- of course, that does depend on which country in terms of margins, but now we were pleased with that. We were pleased that the diversification that we have on channel came through in a much more resilient performance from this particular channel. And we were pleased to see that five markets including China, Indonesia, Vietnam, Thailand and Taiwan grew sales through that particular channel year-on-year. Products are priced to deliver good returns, certainly measured on an IRR basis, which is I think a more useful metric when you're looking at savings-type products, if you're looking at power products with-profit type products unit-linked really margin is not the best measure.

It's about -- what matters most is the return for the risk capital that one is deploying and we deploy very little risk capital. So, the performance on IRR basis is very strong and it complements that from agency to produce an overall across our portfolio IRR of North of 30% with very attractive payback period.

Q - Larissa Van Deventer {BIO 21570130 <GO>}

Thank you, Nic.

A - Mark FitzPatrick {BIO 20178326 <GO>}

And Larissa, if your question was about the in-force unwind, yeah, that is really due to the lower rates that we saw during the course of the year and that element that has created some movement there.

Q - Larissa Van Deventer {BIO 21570130 <GO>}

Okay. Thank you. So, mainly a rate driven change.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Yeah. You got it.

Q - Larissa Van Deventer {BIO 21570130 <GO>}

Thank you.

A - Patrick Bowes {BIO 16444249 <GO>}

And Mike, it's Patrick, I've got a question online now, which I'll just read out, is from Justin Floor in South Africa from PSG. I've got two questions, one for Mark and then one for Nic, the question for Mark is under what conditions would Prudential not need to raise equity capital and what's the probability of this?

And the question for Nic is that key competitor AIA has launched the strategy partially built around Vitality wellness ecosystem, were early signs have been positive, what's the competitive threat from this for Prudential Asia's franchise? Thank you.

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A - Mike Wells {BIO 4211236 <GO>}

Mark, on equity raise.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Yeah, so in terms of the element of looking around equity raise. I think, we don't -- well, firstly, as you can see with the element of the debt-equity ratio that we have and what we said previously in terms of the comments in the rating agency is we don't have to raise, we're raising to be able to create the additional flexibility really that we're looking at, and we're looking at that flexibility to be able to make the most of the opportunities that we see ahead of us in Asia. So, ultimately, it's really around that element, it's to accelerate the deleveraging really with a view to enhancing our financial flexibility. We don't have to raise, but we think if we don't raise it will curtail some of the great opportunities we see ahead of us in Asia.

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Mark. Nic?

A - Nic Nicandrou {BIO 15589153 <GO>}

I mean, we -- clearly we study what everyone else is doing in the region. What we have with Pulse is a completely different proposition. Vitality is a wellness app and it's focused on reward based behavior. Ours is an ecosystem, it's infinitely scalable, that's why we've been able to take it to 15 markets and deploy it to consumers, whether they sit in an urban location or whether they sit on an island in Philippines or one of the many thousands of island. It's infinitely scalable, it sources, services from a number of providers and it's -- as I said, whilst in year one, it's been about growing the people who tend to -- who get to experience Prudential for the first time different cohorts in different ways.

It will also become our fulfillment and servicing platform. It's multi-sided, so it can connect with anyone's ecosystem. We're already connecting it with UOB Mighty app, we're already connecting it SEB's [ph] mobile banking app in Hong Kong. We're connecting it with our new way [ph] partners and the most recent example being the Central's e-loyalty card, and we are able to harness the data exchanges to effectively develop personalized propositions for their -- for different customer set. So, it's a very different concept and totally very important to us and critical to our growth ambitions going forward.

A - Mike Wells {BIO 4211236 <GO>}

(multiple speakers) back to you.

Operator

Our next question comes from Blair Stewart from Bank of America. Your line is now open.

Q - Blair Stewart {BIO 4191309 <GO>}

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Thank you and good afternoon. I've actually got four questions, apologies. The first question is just linked to the favorable experience you've talked about in Asia. We've seen a decoupling of profits growth 14% against the in-force premium base, which grew by 6%. Is the favorable experience a key factor within that decoupling and would you expect that to unwind?

Secondly, just for the US business, what conceptually can be done to reduce the market aspect, the 108 points of unwanted volatility that you had in the RBC progression, what conceptually can be done to reduce that or hopefully eliminate it going forward just to -- just thinking about the volatility of the RBC?

Thirdly, the Asian EV, there was non-operating, there was a big turnaround in the non-operating contribution that was negative $3 billion in the first half and it finished the year at plus $1.6 billion. So, that's a delta there of $4.6 billion. Just give us a bit of color as to what's in that. And finally, just looking at holdco cash flows, if I take into account the lower dividend costs going forwards and lower corporate expenses and lower interest paid, there's still not a great deal of headroom, if any, between cash and versus cash out. I just wonder if that's something that concerns you or is there any plans to increase the amount of cash remittances from Asia? Thank you.

A - Mike Wells {BIO 4211236 <GO>}

Okay. Why don't we -- Blair, if you don't mind I'll change the order and we'll address them all. Okay.

Q - Blair Stewart {BIO 4191309 <GO>}

Yeah.

A - Mike Wells {BIO 4211236 <GO>}

Let's do -- Marcia, do you want to address RBC volatility and keep in mind, in a year that was records on equity rate and basis risk in the US, I think, it's a -- but that said, why don't you address that? And then, I think, we will -- Mark, I'm going to have you get the next three, if you don't mind.

A - Marcia Wadsten {BIO 20249635 <GO>}

Sure, Blair, let's take that question. And I can acknowledge that we are largely a VA company. So, there is a certain amount of volatility that is difficult to eliminate. But I would say, certainly, when we look at 2020 and going back to 2019, we did have some pretty unique situational effects that were influencing what was going on in terms of the transition to VM21 in 2019.

And then in 2020 preparing for the separation, we were definitely wanting to manage the hedging more tightly for smaller moves and so forth. But really it's the economic drivers that we saw in 2020 that were definitely influencing our results in terms of historically low interest rates and the extreme high volatility both on an implied and realized basis. So, we certainly expect both of those economic factors that kind of normalize a bit as we've

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gotten into 2021, which is helpful. And certainly those situational effects around preparing for separation, for example, will not unique items that won't be repeated. But then going forward too, we're looking to introduce a rival product which should be helpful in terms of diversification and add some more stability in that sense from a diversification standpoint.

And then just, we look to our hedging program to just continue to operate effectively as it has so many times over the years and a volatile period and use that as a way to try to manage that volatility to the greatest extent that we can.

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Marcia. Mark, holdco cash.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Yeah. Hi, Blair. Good afternoon. In terms of holdco cash, I think, you've heard me say for a while now, we bring up to this into what we need and part of the reason of that we do that is actually having the funds down at the -- down in the businesses that we can actually get, we can actually work them harder and you're seeing the return in terms of the new business investments and new business profit.

And we can actually just deploy it far more efficiently, it also reduces any kind of withholding to tax potential aspects that I might have whenever I bring the money up to the center. So, I bring up what I -- exactly what I need and the back end of last year, right at the end of last year, we paid the second instalment for the Thai bancassurance deal just about $400 million. We paid out from the center the last couple of days of year-end to make sure the money ended in Thailand for the beginning of '21. So, holdco cash very comfortable with in terms of how that stands and how that's looking.

In terms of Asia EV, the non-op by far and away the largest component of that is rate. We saw all that, as you know we adopt a very active basis in terms of our EV methodology. Rates came down significantly. And then with rates going back up, we saw the elements of that change and also coming through in terms of the higher projected earn rate. That's really what you're seeing that play out in terms of the non-op level on that side.

And then in terms of the Asia experiences in terms of the profitability, I mean, there are lots of moving parts to the IFRS, it's not just premium growth. There is an element, as we said before, some of the claims levels being slightly down this year than what we've seen in the past as a result of some deferral of, for example, elective procedures and the like that are being pushed out as a result of COVID and people understandably staying away from hospitals and let's say absolutely we have to go there.

Q - Blair Stewart {BIO 4191309 <GO>}

Just on that last point, Mark, you've -- with all due respect you've just repeated the question I asked, but what is the impact of that favorable experience, is that the reason there has been a decoupling between the in-force premium base and the profit growth. And would you expect that to normalize as we go into next year and next?

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A - Mark FitzPatrick {BIO 20178326 <GO>}

So, if the element of those claims come back, we would expect there to be a degree of normalization coming through on that particular patch. As -- I think as -- because ultimately, if you need a hip replacement, you're going to need to get that done as soon as we can as soon as we feel comfortable going back in. So, the claims levels we would expect to speed at which that's going to play through, Blair, is unclear, clearly, in terms of how the COVID manifest and how the base variant impact people's behavior and people's appetite to engage -- or to engage with hospitals and the like. So, claims is an important component of it and therefore I think you'll see a more normalized level of those going forward I thought I would think at the back end of this year and certainly into 2022.

Q - Blair Stewart {BIO 4191309 <GO>}

But not possible to quantify at this stage.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Not at this stage. No.

Q - Blair Stewart {BIO 4191309 <GO>}

Thank you, Mark.

Operator

Our next question comes from Ashik Musaddi from J.P. Morgan. Your line is now open.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you, and good afternoon, everyone. Just three questions I have. First of all, thanks a lot for Slide Number 76 for giving the embedded value split for different regions. Having said that, like, when I look at that slide, it's a bit puzzling to me, because if I compare the IFRS profit versus embedded value of Indonesia and the IFRS profit versus embedded value growth -- growth market, it's 25% of EV like annual profit is 25% of both of EV, whereas if I compare the same number for Hong Kong, it's only 3%. Now, I understand that I'm comparing apples with pears because EV and IFRS are different, but then this kind of huge discrepancy is a bit weird as well. It would be great a bit -- to get a bit more color about this 3% versus 25%. So that's number one.

Secondly, Mark, you mentioned that you only take out cash from subs as much as needed rather than taking extra, but at the moment holding company cash is about $1.4 billion and you're saying it might go lower as you demerge US. So, I mean, how do we think about any flexibility for inorganic M&A. I mean, if you need to do a M&A for $2 billion, $3 billion or $4 billion, would you say that you have flexibility in the subs to take out that money or would you say that you have flexibility in that LCSM ratio to take out that $3 billion, $4 billion cash and do the M&A or would you say that you would need to think about raising equity in that scenario? Now, I agree, it's a completely hypothetical situation, but then because there is always a debate about China M&A, that's the reason why I'm asking, trying to get a bit more color.

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And the third question is basically around, say, the question on Thailand, what's going on with the Thai business. I mean, I thought Thai business is having a bit of a trouble because of COVID, but earnings was up 25% in that market. So, if can you give some color about why is high earnings of 25%? That would be very helpful. Thank you.3

A - Mike Wells {BIO 4211236 <GO>}

Okay. Thanks, Ashik. The -- Mark, the first two is yours and, Nic, we will have to do the third one. I think the -- to generally address, Ashik, your question on China in the second part, it would depend on the percentage we bought, right. So, if we bought half the company I'm sure you have a value for it. That's a material raise and then the other thing you've seen us do in region is on smaller transactions, including Thailand, we'll use local capital and sometimes supplement that with Group capital to get the most efficient execution. But it is a -- and that by efficient that means tax friction and a variety of other ways of looking at that. So, we already have a history of using local capital for distribution M&A, if you will, and other M&A and asset management things. So, that trend you'll see continue and that's probably a better proof statement in a hypothetical and I appreciate the hypothetical is an important one. So, Mark, do you want to do the first and then Nic, the third question, please.

A - Mark FitzPatrick {BIO 20178326 <GO>}

Certainly. So, in terms of the extra information in this segmental reporting that we're going to look to do going forward really from the half year 2021, in terms of that hopefully gives everybody a better sense of the different -- some of the different building blocks and then over the course of the half year, we'll be able to give a lot more commentary about those and be able to drill down little bit further into the information.

In essence, as you said, you're comparing two different metrics in IFRS and EEV. EEV by definition far more realistic value measure, IFRS somewhat of that a lagging indicator, and it can take quite a while for EEV translate into IFRS earnings especially for long dated Hong Kong products and also bear in mind that we have the with-profits fund component coming in. But one of the things that we'll certainly look to do as we go through the aspect of the half year certainly gives people a better sense of some of the drivers behind the individual metrics for these new segment during the half year please.

A - Mike Wells {BIO 4211236 <GO>}

And Nic, Thailand.

A - Nic Nicandrou {BIO 15589153 <GO>}

Sure. Hi, Ashik.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Hi, Nic.

A - Nic Nicandrou {BIO 15589153 <GO>}

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So the question was, what's happening in Thailand, clearly, the transactions that we've done -- I'll come back to your profitability point in a minute. Transactions that we've done over the last few years has given us a real presence in a market that is effectively Asia's second largest economy. But importantly in a market where there is a very fast-growing high net worth population, we've given some more color on Slide 65 on Thailand, given the investment that we've made.

So, just adding to that color, we -- on the asset management side now, we have a top five position through the two transactions and serving the needs of the high net worth and with the distribution transaction that we've put in place. We have the ability when it comes to in-force, and of course it came into force the 1st of January this year to leapfrog, leapfrog in top five ranking in that important market overall in terms of new business. And importantly, leapfrog into top two position on the bank channel distribution which is -- which in 2020 was the fastest growing channel and now the more dominant channel.

The business does do quite a lot of health and protection business. We saw further increase last year, one of its USPs is the credit life business that we attach to loans or to attach to loans that are issued by our existing partners. And these are high return products from our perspective. So, yeah, a scale business with a rich health and protection content growing, as you can see on the slide, 78% of the H&P growth last year as we launched new products not only ahead of the relationship that we started, but also with the -- for the existing relationships that we have. So, it's a nice market if we can get the scale and we've taken actions to do that.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah. Thank you. Thank you.

A - Mike Wells {BIO 4211236 <GO>}

Thank you, Ashik.

Operator

We have a question registered by Dominic O'Mahony from Exane BNP Paribas. Your line is now open.

Q - Dominic O'Mahony

Hi, Mark, thank you for taking the questions. I'm having one more on the border in Hong Kong. Could you give us some sense of how the border closure has impacted policy utilization by mainlanders, for instance, the rate of surrenders and claims? And more broadly, is it fair to assume that Mainland residents haven't been able to access Hong Kong hospitals at all during the period of the border closure or are there actually exceptions for people who have divergent need?

And second question, just on assumptions both for reserving and pure embedded value calculations. I'm curious from to understand whether you use the same assumptions for persistency, mortality, morbidity across both your Mainland and domestic population and

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domestic customers? Or whether actually you explicitly use different inputs to those two different populations?

And then thirdly, just on Indonesia, I wonder if you could give us a quick update on the competitive dynamic there especially thinking about the restructuring and the creation of a new state backed entity there. Is that having a potential impact on the competitive dynamic? Thank you.

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Dominic. I think, why don't -- Nic, why don't we let Ben answer a couple, make him -- Ben, make you work a little bit in the -- how about utilization of benefits, the border is truly closed, I think, is the way to think of it, but Ben you want to talk about our assumptions and also utilization, and then Nic, you want to talk about Indonesia?

A - Ben Bulmer

Yeah, sure, hi. Look, on the assumptions, let me take that. So, we do use the same assumption set by and large for the both the Mainland and domestic business. We've done that for a number of years. We monitor both books separately in terms of our experience studies but yes, it's the same set on the line.

In terms of utilization rates, look, there's is sort of, nothing really untoward or remarkable. I'd add that people have access to a variety of hospitals in the Mainland through that policies that kept on an updated sort of hospital list and graded and largely reside in this sort of major cities. So, I think, from that regard, really very little to add over and above, of course, as we've seen elsewhere given COVID people deferring elective medical procedures.

A - Nic Nicandrou {BIO 15589153 <GO>}

Okay. Maybe just to add, there is, I mean, clearly, flows are tend to be gated from Mainland China into Hong Kong, but not the other way. If someone wanted to surrender a policy, they could and the money could be paid into account in Hong Kong or even across the border. Also as part of our critical illness offering, people can use hospitals and clinics in Mainland China. So, there is about 1,000 hospitals on our list, people use them, they pay and then we reimburse them for those clients. So, if you like the servicing, the normal servicing, whether it's a surrender, whether it's an inquiry, whether it's a claim, it continues that you don't have to be in Hong Kong, if you can't travel. So, no, there is no exception. Unless people are prepared to do the quarantine.

As regard to the competitive environment in Indonesia, I'm not sure I've understood the question. We -- the market in Indonesia has been impacted because of COVID first and foremost. Banks, the bank channel has fed a little better like we've seen elsewhere than the agency channel not phenomenally better but better. But what we saw specifically in the bank channel is a very -- a much higher incidence of single premium business than in the past. So, I think, the banking channel was up overall in terms of new weighted premiums, but all of that was driven by single premium, our regular premium business declined, our normal bank business ease away regular premium guys.

So, even though in the lower graphic that we show is the totality in other words it's single and regular or a 10th of single and regular. If we look through that to the regular premium component actually our share increased from just below 4% to just over 5% [ph]. So the -- no, we're not seeing anything come through the specific example that you referenced and on our banking channel, we continue to focus on the regular premium and winning share in that particular segment.

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A - Mike Wells {BIO 4211236 <GO>}

Okay, everybody. Thanks, Nic. So, guys we're down another three questions left, and I'd ask both the people asking the question, our team, let's keep it brief just given where we are in the time. Do you want to go to the next one, guys?

Operator

Our next question comes from Nick Holmes from Societe Generale. Your line is now open.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, guys. Thank you very much. I'll keep this very, very brief. RBC ratio, what's the reaction have you had from regulators and rating agencies about whether full 50% is sufficient. And second, Jackson strategy, what about diversification, what's happened to diversification and what are you aiming to do to reduce dependence on variable annuity? Thank you very much.

A - Mike Wells {BIO 4211236 <GO>}

So, the rating materials, Nic, is published. And I think we have, again, with the Form 10, I'm not going to get into a regulatory or anything forward-looking on that, but it's -- you see the rating agencies public on their comments. On the verification, Marcia and Laura both mentioned, you have a new rival product coming and I think just depending on your view at your firm and your personal view on rates, I think the timing on the reinsurance transaction, the fixed looks pretty good right now.

So, there is a variety of things, I mean, Jackson leads the industry and its distribution capability and obviously has a full suite of products that can diversify with, but those are its options. But that's all we're going to say prior to the Form 10 filing later this month. So, we've got to be very guarded that we don't -- you'll get some more information in it. But again that's -- we're live on that now. So, I've got to keep those two to a minimum.

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Q - Nick Holmes {BIO 3387435 <GO>}

Cool. Thanks for taking my question.

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Nick.

Operator

Our next question comes from Gordon Aitken from RBC. Your line is now open.

Q - Gordon Aitken {BIO 3846728 <GO>}

Great. Thanks very much. Couple of questions on embedded volume please. Firstly, you've continued to report embedded value alongside IFRS earnings and when most European insurance companies dropped embedded value from a long time ago, why you have continued to do this? And can you just give us a sense of how important embedded value is to Asian investors that you're trying to attract on to the register in comparison with European investors.

And the second question, in Asia, you really consistently recorded positive experience variances and operating assumption changes and many people would see embedded values, the best estimate basis, how prudent you believe your embedded value is, and should we continue to expect positive variances and assumption changes in the future? Thank you.3

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Gordon. Mark, do you want to take those two?

A - Mark FitzPatrick {BIO 20178326 <GO>}

Sure. Hi, Gordon. So, in terms of embedded value we believe it is a very important metric, it's something that we use extent to be ourselves in-house as a management team is something we extensively with our Board to be able to talk about the performance of the business. And the general kind of investor community for life insurance in Asia does tend to use embedded value and does tend to focus on the long-term cash flows and the expectations of those along the way, and we've seen the extensive disclosure we've given and hopefully, you will find the additional disclosure we've given this time around helpful and constructive.

In terms of the experience and assumption variances, I suppose the best would be cautious, it isn't overstated and probably it's the cautious and best estimate. We have had positive experience and assumptions and the coming through for a number of years now. And I'd much rather have a cautious stance and released and overly aggressive and paid back. So, our cautious stance has been proven out year-after-year and not minded to change that on a go-forward basis.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you.

A - Mike Wells {BIO 4211236 <GO>}

We've got time for one more, guys.

Operator

Our final question comes from Thomas Wang from Goldman Sachs. Your line is now open.

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Q - Thomas Wang {BIO 18056117 <GO>}

Thank you, I'll be very quick so if I'm reading it correctly, I think is Pulse not yet in China and India. Just wondering why so? Thanks.

A - Mike Wells {BIO 4211236 <GO>}

Thanks, Thomas. So, we are -- we obviously have the option to do both and we are looking at both actively. I think, it's -- there is a bandwidth issue and there -- which you've seen us do with Pulse is we rolled it out Malaysia in November of 2019, late November and then each iteration of it in each country has been a effectively an improvement in further integration of the operating model. So -- and then going back to the earlier markets and upgrading them to what we've seen in Pulse, so there is actually one Pulse entity out there right now.

In China, there has been -- I mean, our -- it's been for the last five years, one of our most digitally advanced businesses, it's a cloud-based almost signature-less platform. And on the life side there's a variety of licenses you would need with the Pulse project and then, India, the same. But they're both within our realm of strategic options and are looking at both.

Q - Thomas Wang {BIO 18056117 <GO>}

Got it. Thanks.

A - Mike Wells {BIO 4211236 <GO>}

All right, guys. So, hopefully, that gives you an idea everybody on the progress we're making towards the strategic objectives. The -- we think was very agile and effective performance during the most severe parts of COVID and I think that the key to me is the positioning of the Group has improved for what follows this -- the strains of COVID is that you see a business that's now got larger agency, larger bank distribution, more digital, we have more operational efficiency, faster at pace and I think, the work on the US independents continues at pace, we've given you as clear guidance as we can there, it's, again, it's basically now subject to regulatory and shareholder approvals.

And there is a -- there is -- the consumer -- from one of the questions earlier, the ability to acquire consumers at a faster pace, the ability to get younger cohorts. The success of the new distribution activities and product sets we've rolled out and we didn't get a question on Africa, but it continues to grow nicely. The options ahead of us are ours and they are unique and they are -- and I think they separate us from our peers and they position us to be the leader in Asia, to be clear. And that's the ambition and that's where we see the business going.

So thank you for your time, I know it was a long one today, but we want to make sure we took everyone's questions and appreciate your support through what's been a material outside of transformations for a 173 year-old firm, and we'll continue to make sure it's highly competitive, growing its value and producing the kinds of returns you would expect us to. So, thank you very much for your time today.

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Operator

Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.

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