

Business unit review

Insurance operations

Asia



Barry Stowe
Chief Executive, Prudential Corporation Asia

'In 2007 Prudential delivered new business APE of £1,306 million from Asia, representing very strong growth that averaged 44 per cent over 2006, with all operations delivering double-digit growth.'

A handwritten signature in black ink that reads "Barry Stowe".

Prudential's strategy in Asia is to build quality, multi-channel distribution that delivers customer-centric and profitable products in segments with the potential for sustained growth. By necessity, the approach to each market varies, but all operations are unified under the Prudence icon and common brand values and Prudential has the proven ability to leverage learning and expertise from within the region and the wider Group to accelerate the development of unique opportunities as they arise in each market.

The ability to execute the strategy is highly dependent on the strength and depth of the management talent pool in the region and consequently Prudential invests in continually strengthening and developing its teams. The operating model empowers local management teams with a regional team overseeing control functions such as risk management and providing strategic guidance and technical support in areas such as distribution optimisation and product design.

Prudential has a market-leading platform with top five market share positions, in terms of new business APE, in seven of its 12 markets. Prudential has the leading private sector life insurance joint ventures in China and India.

Current year initiatives

The core business priorities were outlined as:

- Building on existing strengths in agency channel.
- Improving and extending partnership distribution.
- Continuing product innovation.
- Strengthening and deepening customer relationships.
- Developing retirement solutions.
- Starting work on direct distribution.
- Re-examining approach to health products.

'Prudential has already begun positioning itself as a provider of retirement solutions through the roll-out of the successful 'What's your number?' campaigns in six countries.'

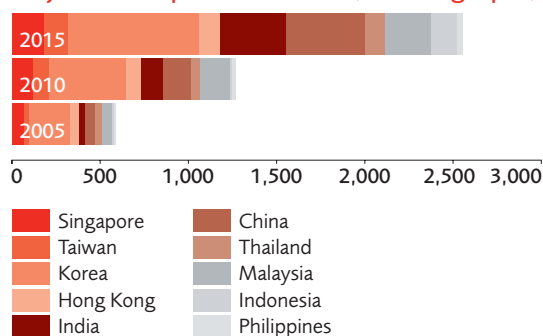
Agency is the predominant distribution channel in Asia and for Prudential, the agency force again generated 70 per cent of new business volumes in 2007. Success in agency distribution requires building and maintaining meaningful scale in terms of agent numbers whilst also providing the infrastructure to manage agent training and skills development to drive agency productivity. Prudential's agency priority depends on the stage of development of each individual market and Prudential's operation within it. For example in India, Prudential's joint venture with ICICI has been rapidly expanding, with the addition of 593 new branches during the year to give a total 1,065 and correspondingly average agent numbers in 2007 increased by 123 per cent and at 31 December there were 277,000 agents.

Similarly in China, although the rate of geographic expansion is slower as each new city requires separate regulatory approvals, the emphasis is also on expanding the agency channel; average numbers were up 38 per cent and at 31 December there were 20,500 agents. In markets where we have sufficient agency scale, the emphasis is on helping those agents become more productive through intensified training and sales management support. Agent productivity, in terms of average APE per agent, increased by 67 per cent in Vietnam and 21 per cent in Singapore during 2007.

Prudential has a large partnership distribution network in Asia. During 2007, Prudential extended its agreements with Standard Chartered Bank to include Taiwan where it will exclusively provide bancassurance products in their newly acquired HsinChu International Bank with its 83 branches and 2.4 million customers. In Korea regulation states that a bank can only source a maximum of 25 per cent of its total insurance sales from any one insurer, and with Prudential's existing bank partners regularly reaching their maximum shares, adding new banks is a priority. In 2007 Prudential secured two major new banks, Industrial Bank of Korea and Kookmin Bank. Prudential's regional bancassurance relationship with Citibank also grew strongly, with new business APE generated of £23 million being 12 per cent of total bank distribution for 2007.

In 2007 Prudential continued to broaden its range of linked products. These included the new Global Property Fund in Singapore and a new Takaful range in Indonesia, launched in September 2007. In Taiwan, a new variable annuity product and an agency incentive programme contributed to the growth in new business of 71 per cent for the year.

Projected Asia pensions market (excluding Japan) US\$bn



Source: IMF

	CER			RER	
	2007 £m	2006 £m	Change %	2006 £m	Change %
Asia					
APE sales	1,306	909	44	956	37
NBP	653	487	34	514	27
NBP margin (% APE)	50%	54%		54%	
NBP margin (% PVNBP)	9.3%	10.0%		10.0%	
Total EEV basis operating profit*	1,046	779	34	829	26
Total IFRS operating profit*	189	177	7	189	0

*Based on longer-term investment returns excluding fund management operations, development and regional head office expenses.

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Good results were attained from systematic cross-sell campaigns across the region, contacting more than two million of our existing customers. These included the initiation of a regular up-sell in Hong Kong through the indexation of policy benefits and initiatives to capture maturity proceeds in Singapore as well as a targeted offer of guaranteed increases in protection benefits in Malaysia.

Although still small, new business from direct marketing grew by 65 per cent over 2006 with Thailand performing well and recording growth of 52 per cent. The regional Direct Marketing team has been strengthened and work is now under way on exploring further opportunities.

In Asia, there are very material opportunities arising in the provision of healthcare solutions. Prudential successfully piloted new supplemental health products in Singapore, India and Hong Kong during the year, selling over 125,000 new policies.

Helping people address their financial needs for retirement is also a major growth opportunity and whilst Prudential already has a number of products designed to support the accumulation phase of a retirement fund, work is now under way on drawdown options and supporting related protection and health products. Prudential has already begun positioning itself as a provider of retirement solutions through the roll-out of the successful 'What's your number?' campaigns in six countries that encourage people to think about what resources they are likely to need to finance their retirement aspirations.

Prudential has a unique position in Vietnam with its market-leading life insurance business and well-respected brand. To further leverage this platform, Prudential launched a consumer finance company in September 2007.

Financial performance

In 2007 Prudential delivered new business APE of £1,306 million from Asia, representing very strong growth that averaged 44 per cent over 2006 and with all operations delivering double-digit growth including Taiwan, India and Indonesia, up 71 per cent, 67 per cent and 75 per cent respectively.



'What's your number?' retirement campaign

Prudential's 'What's your number?' campaign encourages individuals to identify and save toward a retirement goal that will support their lifestyle. Since 2005, the campaign has been launched in Korea, Hong Kong, Taiwan, Malaysia, Singapore and India.

'Asia expects to deliver doubling of 2005 EEV NBP a year early by 2008.'

New business profit increased by 34 per cent as the average profit margin reduced from 54 per cent to 50 per cent mainly due to a change in the country mix of the sales. China, Hong Kong, Korea and Taiwan all reported increases in new business profit margins compared to 2006. In India, the branch expansion programme has led to an increase in policy acquisition and maintenance costs and therefore a rebasing of the expense assumptions. The reduction in average margin for the other countries was due to a change in country mix.

In-force embedded value profits of £393 million are driven principally by the unwind of discount, with net assumption changes of £54 million and net experience variances of £(1) million. Assumption changes were principally due to favourable changes in corporation tax and positive mortality assumption changes. Negative persistency assumption changes are offset by positive expense assumption changes. Experience variances mainly reflected positive mortality across all operations partially offset by expense overruns in the newer operations of China, India and Vietnam.

IFRS profits

	2007 £m	2006 £m	Change %
Established markets (Hong Kong, Singapore, Malaysia)	153	134	15
North Asia (Taiwan, Korea, Japan)	16	20	(20)
Joint venture markets (China, India)	(49)	(20)	(146)
Other SE Asian markets (Indonesia, Vietnam, Thailand, the Philippines)	68	43	58
Total Life IFRS profits	189	177	7

CER		
2007 £m	2006 £m	Change %
153	134	15
16	20	(20)
(49)	(20)	(146)
68	43	58
189	177	7

The total IFRS Operating profit of £189 million was up seven per cent on 2006. Within this, the Established markets (Singapore, Hong Kong and Malaysia) generated £153 million, up 15 per cent from 2006. The North Asia markets (Taiwan, Japan and Korea) generated £16 million, down 20 per cent from last year reflecting increased losses in Japan of £16 million. Excluding Japan, profits from North Asia almost doubled reflecting a strong increase in Taiwan of 47 per cent due to in-force profits, especially from long-term health products and favourable other experience. Losses from the joint ventures in India increased to £43 million, reflecting the fast pace of new business growth and investment in growing the branch networks. Losses from the joint venture in China reduced to £6 million. In the other markets (Vietnam, Thailand, Indonesia and the Philippines), profits grew by 58 per cent to £68 million reflecting the expected emergence of IFRS profits and a one-off £16 million favourable item in Vietnam.

In 2007 the Asian Life operations were again net remitters of cash to the Group of £56 million. Remittances totalling £148 million were from Hong Kong, Indonesia, Malaysia, Singapore and included the first remittance from Vietnam. The Life operations received injections of £92 million, of which £49 million was injected into India to support branch expansion with the balance primarily injected into China and Korea to support solvency requirements as a result of new business growth.

IRR for Asia was in excess of 20 per cent for 2007. In Asia, Prudential targets IRRs on new business to be at least 10 percentage points over the country risk discount rate, where these vary from five per cent to 17 per cent. During 2007 all markets except India and Japan met this target.

Having achieved compound growth of 26 per cent since 2005, Asia expects to deliver doubling of 2005 EEV NBP a year early by 2008.

Increasing proportion of APE sales from unit-linked business %

