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C-SUITE EXCLUSIVE

# The growth driver of Prudential

*Asia CEO explains his plans for the firm in exclusive interview*

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Nic Nicandrou came to Hong Kong as Prudential Corporation Asia's (PCA) chief executive in July last year, having previously held the position of Group Chief Financial Officer at UK-based parent company, Prudential, since 2009. He is also the second-longest serving corporate member on the insurance giant's board.

In an exclusive interview with *Asia Asset Management*, Mr. Nicandrou talks about his passion for the insurance industry, his vision for the firm in Asia and some of the initiatives he is currently overseeing in the region.

Excerpts from the interview follow:

## *On choosing insurance…*

I went to Oxford University in the 80s and studied engineering – control engineering, specifically. The amazing thing is that 30% of those that qualified as engineers in 1987 went into accounting, and I was one of them. On graduating, I joined PricewaterhouseCoopers and that's when I discovered insurance. What I liked about it was its complexity and its social purpose.

I discovered that the insurance industry exists to protect people's lives and protect the things that are most precious to them, whether it's their health, their life or their savings. What insurance is about at its heart is a promise: a promise that we are going to be around 20, 30, 40 years from now to pay you back what you've put in, and ideally more. And to stand behind you if there's a loss of life in the family or to help you plan ahead so the people you care most can have a secure future.

I fell in love with this concept and ended up spending 11 years at PricewaterhouseCoopers specialising in insurance. At this point, rather than checking people's homework and consulting, I wanted to do it myself. So, I left and joined Norwich Union in 1997, which subsequently merged with Commercial Union and General Accident to become Aviva, and stayed at the company for 11 years.

When I joined Prudential in 2009, I discovered that it was actually a much better company than I had thought it was as a competitor. At that time, Asia was a fraction of what it is today in terms of business. I thought Prudential was predominantly a UK company but I soon realised that it had a fantastic presence in Asia.

## *On heading up Asia…*

As I was previously involved in mapping the group's strategy, I always had a say in how we evolved and developed our businesses in Asia. I worked with my predecessors here in Hong Kong to ensure that we were growing in the right places.

In the health space, one of the things we are putting a lot more emphasis on is thinking about the services that we provide. Health is about protection, prevention and then delivering our promise with payment in times of need. Historically we've always focused on the protection aspect. I wanted us to expand into the other two areas.

## *On payments…*

One of the initiatives we've put into place since I started (as Asia CEO) is to enhance our technology platform that currently allows customers in five of our markets to effectively take a hospital receipt, take a picture of it on their phone and submit it to us online. This then goes through our new technology system, which auto reviews the claim by means of key words and information. It then auto assesses to find out if the claim is reasonable; if it is, we settle it on the same day. We are currently offering this in Hong Kong, Singapore, China, Malaysia and Indonesia. This is one of the various enhancements of our capabilities to improve customer experiences across the value chain.

In Malaysia and Indonesia, we have been reinforcing our relationships with local hospitals. We can direct our customers to these hospitals if they need treatment. All they need to worry about is about admitting themselves to the hospital and then discharging themselves. It's a seamless experience for the customer in often very stressful or traumatic situations, and we are here to take care of the costs and the administrative work. Launched in 2017, our customers can enjoy this service in 93 hospitals in Malaysia and 45 in Indonesia, and we plan to expand this further in 2018.

## *On prevention…*

We focus on offering people new services that play well in the health and wellness space.

Before I took up the new role in Hong Kong, we had started to work with a company called Prenetics, a leading genetics testing company in Asia. Based on a swab of saliva, from the DNA extracted,

Prenetics can provide you with a personalised wellness profile. It is not a diagnostic test and does not purport to be able to tell you what a doctor would tell you, but it does provide unique insights and actionable pointers about the influences of genetic traits on your diet. This innovative tool, called myDNA, was first introduced in Hong Kong to empower customers in monitoring and improving their health management. Following Hong Kong's positive feedback, we have also rolled this out in Vietnam, Singapore and Malaysia.

If you are a customer that buys a certain level of cover from us, then we will include myDNA in as an additional service. It's a mobile app, and we don't gather the data. If our customers are healthier as a result, it's a very good thing for us and for them. My vision is to create an ecosystem for our customers where we provide services across prevention, protection and payment. This is a key priority for us. We are accelerating our effort in this important area, and I hope to share more on these developments before the end of this year.

## *On protection…*

The vast majority of products are designed for more affluent customers. To improve access, we are simplifying our products and putting them online in Malaysia and Singapore. We're also doing something similar in Hong Kong off the back of the government's recent announcement about voluntary health insurance, which is designed for lower socio economic groups.

Excitingly, we are working with small-to-medium enterprises (SMEs) – companies with fewer than 50 people – to provide them with group insurance, including life, health, accident, and hospitalisation insurance.

Typically, large organisations with many thousands of employees will be looked after by brokers, such as AON or Willis Towers Watson, who will look at the market and come up with the best insurance solutions for them. But brokers don't tend to work with smaller companies because the premium size may not be enough for them to make a commission. So, these companies tend to be underserved.

Our teams are working hard to introduce simple products and use innovative technology to administer those types of products in order to allow easy onboarding of smaller companies. We have launched a product like this supported by an administrative platform in Malaysia; there we're targeting 98% of all companies – so that's 900,000 SMEs. We're looking to leverage technology to do the same in Indonesia, where there are five million SMEs. In doing so, we will make it possible for employers with small teams to access insurance.

## On asset management…

Traditionally, our asset management arm, Eastspring Investments, has been an Asia-focused, value-style house. We are well known for our Japan and Singapore equity capabilities and have some good propositions in Korea. We have a strong JV partnership in India with ICICI Pru and our equities and fixed income teams in India continue to produce impressive returns for our clients. We also have one of the largest Asian fixed income teams based in Singapore. Seventy-two per cent of all our fixed income funds are top-two quartile or have beaten their benchmarks over three years. We're proud of this achievement and the strong stable nature of this team – most of whom have been investing together for more than ten years.

We are working hard to evolve our investment offering because, increasingly, our global client base is looking for multi-asset multi-factored strategies and exposure to alternatives. So, last year, we hired a chief investment officer for alternatives and multi-asset and have been adding additional resources to our quantitative solutions team to create investment solutions we can then distribute to third parties.

It's an exciting time at Eastspring and I'm proud of how the business is evolving. We are expanding our geographical footprint and broadening and deepening our investment capabilities. The reality is that, while we've been very successful in the value space, growth funds have outperformed value funds for 13 out of the last 20 years. By expanding our investment offering, we are ensuring that we will be more resilient across investment cycles and have increased sources of alpha. I'm saying, well why not have both? Yes, we want to build this ourselves – but it will take some time.

In terms of initiatives in this space, in December 2017 we announced a partnership with a US-based firm, Sustainable Growth Advisors, who are well known for both global growth and US growth. Working in partnership with them, we are looking to distribute their products to third parties in Asia. We have also been working with BlackRock to combine their expertise in ETFs with our own expertise, and have launched products in a number of our markets that effectively combine their strengths with ours. We are exploring launching thematic-type products that may be attractive to millennials.

## On China…

China is a very important market for us. On the life side, we have a very good JV partner with Citic Group, which is a state-owned enterprise with a huge presence on the Mainland. I now chair the JV board.

We're unique in that we have the largest footprint among all other foreign JVs in China. You have to be licensed province by province on the Mainland to do insurance, and typically the authorities will give you a maximum of one province a year. CITIC Prudential Life Insurance has presence in 18 out of the 31 provinces – which is the most out of all the 50 or so foreign JVs. In the last six months, we have gone from having 74 branches to 77 in Mainland China. In the course of the last year, we increased the number of agents we have on the road by 33% to more than 40,000. China was our fastest growing life insurance market last year, with a 43% increase in sales and 38% increase in profits. It is already our fourth-largest contributor in Asia.

We also have an asset management JV in China, again with Citic. The retail fund management space is so new in China, it's only been going for 15 or so years, and still there are only around 5,000 mutual funds available from all the asset managers there. The size of the mutual fund business in China is currently US$1.8 trillion, and this figure is predicted to double in the next five years. China will account for 50% of all the money that is managed in Asia by 2022; it will attract 50% of all flows into asset management globally in the next five years.

We are trying to tap into these opportunities in two ways. The first is through our JV with Citic; there we are already the 25th largest mutual fund manager in China out of 122 (excluding non MMF). It's a highly fragmented market; we now manage around US$18 billion. Through the JV, we are going after retail business. We are also looking to set up our own wholly foreign-owned enterprise (WFOE), where we will have the advantage of being 100% owned. We have received authorisation to set that up, which means we will be able to market what we do to both the private (non retail) and institutional space. This means we will be able to manage money within China, and manage money that comes into China. We will also apply for a Qualified Domestic Limited Partnership (QDLP) quota to allow us to manage money for Chinese private customers.

## On regional prospects…

In terms of financial performance, there's no reason why this company cannot double its profits, for example, every five-to-seven years. Our history illustrates that this is achievable. We have quadrupled our profits in the last ten years, so it should be possible to double every five.

In terms of the value PCA brings to Prudential, we make up about 55% of the business. PCA employs around 14,000 people and Prudential has around 24,000 altogether. If you want to measure it by the number of customers, we have 15 million customers in Asia, while Prudential has 24 million customers altogether – so, again, more than half.

We recently announced that Prudential delivered a record year in 2017. But behind that was Asia delivering a double-digit increase in earnings (15%), a double-digit increase in the cash that we throw off as a business (19%) and a double-digit increase in the profit we derive from new sales (12%). And PCA has delivered double-digit growth across the board now for eight consecutive years.

We are the growth engine of Prudential. Every year, we are becoming a bigger proportion of the company because of the opportunities in Asia. Six-out-of-ten of the policies we sell in Asia are to first-time buyers. It is a multi-decade opportunity, particularly because Asia is becoming wealthier and people are realising that they have something to protect.