

ASSET OWNERS

by Richard Morrow | 16 hours ago

Prudential prioritises China in Asia expansion plans

The Asian chief executive of UK-based insurer Prudential is pushing to expand in China, both on the asset management and insurance sides of the business.



Life insurer Prudential is focusing on expanding its China insurance business to become larger than that of Hong Kong within a few years, as part of a broader effort to continue growing across the Asia region, according to regional chief executive Nic Nicandrou.

Speaking to *AsianInvestor*, the recently transferred regional head discussed both Prudential's strategic ambitions and the group's decision to split its global business into two.

The company had £84.36 billion (\$114.2 billion) in assets in Asia at the end of 2017, up from £56.87 billion two years earlier, according to its year-end financial results. Meanwhile, its wholly owned Asian funds business, Eastspring Investments, boasted £139 billion in assets under management (AUM), due to its management of external assets in addition to those supplied by its parent.

Nicandrou said he sees ongoing expansion potential in the region, which continues to see insurance markets flourish on the back of growing economies.

"There are growth opportunities everywhere, and China is one," said the former group chief financial officer of Prudential, who moved to head operations in Asia in July 2017.

At the end of 2017, China had Rmb10.67 trillion (\$1.69 trillion) of AUM in mutual funds, according to funds data provider Morningstar, while its insurance industry had combined assets of Rmb16.7 trillion in 2017, up from Rmb15.1 trillion a year earlier, driven by strong insurance premium growth, according to the China Insurance Regulatory Commission.



Like other international insurers, Prudential sees a lot of opportunity there. "China is the third-largest life market in the world, and it's still highly underpenetrated," said Nicandrou (pictured left).

He noted that insurance penetration, or the value of insurance policies as a percentage of GDP, is estimated to be 2.3%. Just 115 million of the country's almost 1.4 billion people is believed to have any sort of insurance product, and most possess one and a half products on average. That compares unfavourably with Japan, where the average person has seven insurance savings products.

The Chinese government wants to see insurance penetration reach 5% of GDP by 2020.

"When that happens it will be the largest insurance market in the world," said Nicandrou.

RAPID GROWTH

Prudential currently has an 18-year old joint venture insurance company in China with Citic Group, called Citic-Prudential Life Insurance, in which it holds a 49% stake. The JV holds \$17 billion in assets, making it the country's 25th largest insurer in an industry that has an AUM of \$2 trillion.

Prudential and Citic's JV has an agency salesforce of 44,000 people, and it's still growing. Most recently it added a new branch in Anhui province in November. Nicandrou thinks there's a lot more to come. He noted that the JV's insurance product sales rose 43% in 2017 versus the previous year to nearly Rmb600 million.

"If it keeps compounding at that rate it won't be long before it overtakes Hong Kong," he said. Prudential recorded HK\$1.7 billion (\$217.9 million) of sales in Hong Kong in 2017.

China's mutual fund market looks similarly appealing. "There are numerous forecasts that it will more than double in size [in terms of AUM] over the next five years, and in doing so it will mean that half of the retail assets managed in Asia are in China, while half of the global [retail] assets will be in Asia," Nicandrou said.

Prudential's subsidiary Eastspring gained an investment management wholly owned foreign enterprise (Wfoe) licence in March, which will let it sell mutual fund products to private clients in China, and is next going for a private fund management licence.

"The first step in the process is to put in our application to Amac (the Asset Management Association of China, a self-regulatory body overseeing China's mutual fund market) ... by late June or early July," Nicandrou said. "Once we get the licence we will effectively be a private fund manager and need to launch a product within six months from that."

He noted that Eastspring already manages offshore Chinese investor money. "But the game-changer is managing Chinese money in China."

While China is the top priority, Prudential is eyeing rapid expansion across much of the region. Its India life insurer JV, ICI Pru Life, has an 11% market share and saw new premiums grow by 17.6% in the financial year ending March 31. While that was substantially lower than the 28% growth registered in the 2016-2017 fiscal year, it was still decent. More encouragingly for shareholders, it saw a 93% jump in value of new business, or the profitability of new customers.

Elsewhere, Prudential enjoys market shares of around 20% across much of Southeast Asia.

Nicandrou did not specify how much Eastspring and Prudential could grow their respective assets in the coming few years. A spokeswoman for Eastspring declined to offer specific projections on such plans over the next three to five years.

SPLIT DECISION

Prudential's Asia growth ambitions are part of the reason that the UK-headquartered company has decided to de-merge its global business into two separate companies.

The insurer intends to move its Europe-focused insurance operations and developed market-focused asset management arm, M&G Investments, into a new business called M&G Prudential. Meanwhile, its energetic, fast-paced emerging market operations in Asia and Africa are aligning with its expanding US division (Jackson National Life Insurance) and its Singapore-based asset management house Eastspring Investments. This will be known as Prudential Plc.

The idea behind the split is to allow the more mature (read: stodgier) insurance business to be based on its own merits, rather than lag behind the pacier emerging markets divisions. Asia and the US are by far the most rapidly expanding parts of Prudential. Operating profits in Asia grew by 20% in 2017 to nearly £2 billion, while those of Jackson grew by 17%. These compare with the 10% growth seen in its Europe and UK divisions.

"No company has infinite resources and at the end of the day we have to decide where to direct them," Nicandrou said. "In the UK we are growing but it's slower and more cash generative. Others need to invest at a faster rate to take advantage of the growth opportunities. With the UK being unshackled, it won't have to demonstrate that whatever idea it brings to the centre is better than [the business growth offered by] Asia."

Bringing Asia, Africa, and the US into one business is an unusual approach, given the differing sophistication of each geography, but Nicandrou argued that all three can boast rapidly growing premiums and revenues. Plus, he believes the US business could offer some complimentary services for its Asia operations.

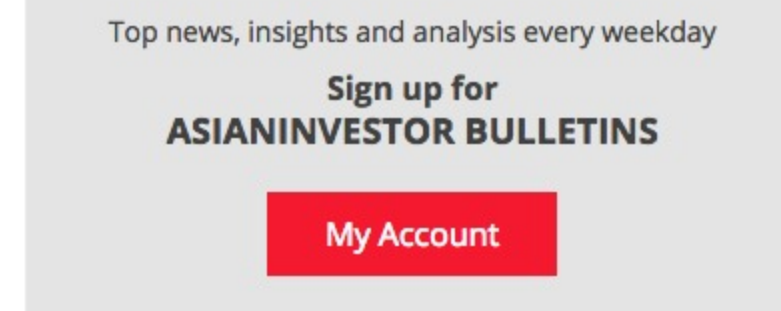
"No product here [in Asia] lets people draw down on [their accumulated insurance assets] once they stop accumulating; after 20 to 30 years of saving if you take the money it's in one block," he noted. "But Jackson is an expert in decumulation products (which let retirees draw down money while continuing to invest the remainder in appropriate investments). And many authorities are now thinking of their aging populations and trying to get companies like us to create products to cater to those needs."

Going forward, Nicandrou said Prudential would remain relatively conservative in its product array. He noted that it would not, for example, seek to tread into more aggressive forms of investment policy in China. "We would rather have quality, with protection and premiums for the next 30 years, than short-term single premium products that have payments we guarantee for three to five years," he said.

He was also at pains to note that Prudential thinks China's plan to integrate its banking and insurance regulator would help reduce arbitrage. "For us, stronger regulation is a good thing; we are used to [operating under stringent] regulation."

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