Corrected Transcript

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Prudential Financial, Inc. (PRU)

Bank of America Merrill Lynch Insurance Conference

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CORPORATE PARTICIPANTS

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

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Jay A. Cohen
Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Jay A. Cohen
Analyst, BofA Securities, Inc.

Our next session is with Charlie Lowrey. Charlie is Chairman and CEO of Prudential. He was appointed as CEO in the fall of 2018. So it must feel longer to you?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

Feels much longer than that.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Prior to this role, Charlie was COO of Prudential's International Business. Has previously served as Head of PGIM as well, and joined Prudential in 2001 from JPMorgan, where he ran Real Estate & Lodging, Investment Banking business. And I think you're trained as an architect as well.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

Yeah. And practiced for four years.

Jay A. Cohen
Analyst, BofA Securities, Inc.

You did practice?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

I did.

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Jay A. Cohen
Analyst, BofA Securities, Inc.

So if you need any design tips, that will be the session after this. I'm actually building a house now, so I might...

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

There you go. Absolutely.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Charlie is a first-time presenter here, and we're excited to have you here. So thank you for coming.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

Well, thanks, everyone. Thanks for having us. Yeah.

QUESTION AND ANSWER SECTION

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

I want to start with maybe some bigger picture questions. So you've been CEO for, I guess, a little bit more than a year, give us your view on how 2019 went. And as you talk about it, what are some of those things that you were really happy with, you're proud of, and some of those things you felt, god, I wish we had done that a little bit better?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Okay. So the first year was – last year was really a foundational year for us. And if you think about us coming in, we tried to do four or five things. And the first thing we did was to change the culture of the firm. And you all may roll your eyes and say, what does that mean, and how does that translate into outcomes? But it really was about outcomes.

It was about changing the way people thought from delivering intentions to delivering outcomes. And to have a different way of thinking about working, having a different way of thinking about the urgency with which we approach the markets, and think about customers differently, and how customers demand more. And as a result, we have to demand more from ourselves in order to meet our customers' needs.

In order to do that and prove to the market that we were actually serious about this, we put into place, what we call, the future of work, which was on the one hand the transformational effort to, again, transform the way in which we do business, but one of the outcomes of that was [indiscernible] (00:02:45) going to be a $500 million expense synergy and margin expansion. And so, we said that internally, and we said it externally, so that you all could measure us over time and make sure that we're really doing what we were supposed to be doing.

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The third thing we did was to be consistent and to be consistent in our practice of returning capital to shareholders. And so, we returned about $4 billion to shareholders last year in terms of both dividends and in terms of share repurchases, so we continue to deliver on that.

The fourth thing we did was to buy Assurance, some very different type of acquisition for us. It's a growth acquisition. It has no interest rate exposure, and it allowed us to get closer to customers and begin to expand our addressable universe, and I'll talk about that in one moment.

And then finally, we put a down payment on our future of work. We wanted to show you that we were very serious about what we're doing. And so, we did the Voluntary Separation Program, which was an acceleration of the future of work transformation that we're going through. That set us up for really this year.

And in terms of this year, there're three principles. One, is to continue to work on our foundational businesses, if you will, making sure that they're as efficient as possible, that they're operating well, that they are competitive in their marketplace as we go forward, and that they are reaching our customers.

The second is the whole transformation, the future of work initiative, and delivering on the $140 million that we promised to investors this year that we would deliver as part of that $500 million.

And the third part is really the expansion of our business, expanding the addressable universe, by doing so in an environment that we acknowledge is a tough environment, right? You have low interest rates, and as a result you need to think about business mix, you need to think about pricing, you need to think about sales and juggling that of expanding our addressable market within the context in which we're operating now and trying to make sure that we manage both of those aspects accordingly.

Long-winded answer but, at least, it kind of sets up where we are, what we thought about last year. What didn't go well last year and what we take accountability for is that our results were not as consistent as we would have liked them to be. They were a bit choppy. And what you've seen, I think, in the past couple of quarters, is that we have met the expectations of The Street.

And one of the other things we did last year was we eliminated guidance, which we thought was sort of a once-and-done, and now we're working much more closely with analysts and investors in terms of making sure that we're on the same page as they are in terms of managing their expectations and what we think we can deliver over time, and just making sure there's clear communication. And I think you've seen that with Darin Arita and his team in terms of the level of disclosure and transparency that we provide on a quarterly basis, which hopefully helps both analysts and investors in terms of determining their own outlook for us.

Jay A. Cohen
Analyst, BofA Securities, Inc.
Q

[indiscernible] (00:06:33) on that, Charlie. And that is, so the last, I guess, two or three quarters' estimates generally have come down. You did have that analyst meeting, I guess, over the summer out in Newark. Did you think at that point maybe we should just get expectations lower or did something change after that where estimates probably had to come down a bit?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Things changed. So if I look back on it and what I could do over again, it might be that eventful meeting. But the thing that changed materially for us were interest rates.

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Jay A. Cohen
Analyst, BofA Securities, Inc.
Q

Yeah.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

So when we had the analyst meeting, we're at about 2.5%, trending to 3%, and now we're at a 1.5% environment. That makes a material difference to our ability to – it makes a difference to our products. That makes a difference as we think about reinvestment rates. It makes just a big difference to an insurance company, and that was the material change that took place.

Jay A. Cohen
Analyst, BofA Securities, Inc.
Q

I think, the near-term view you're getting on the earnings now is actually quite helpful. And so – and changes in interest rates, hopefully. And that ever in near term are not going to impact, so at least we have good visibility, which I think most – the response I'm getting is very good.

Let's talk about the $500 million expense cut. I think when you ask people like me and in the audience how you cut expenses, [indiscernible] (00:08:06) rid of a bunch of people.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Right.

Jay A. Cohen
Analyst, BofA Securities, Inc.
Q

And it's far more complex than that. So how do you go about that? What are the sources of reducing the expenses for you?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

So that is exactly what we're worried about because you can put a – cutting costs is easy, right? Retaining those cost cuts is difficult. So if I came to you and said, Jay, cut your costs by 15%. You'd say that's easy, I'll cut three people, and then I'll sneak them back in over time when you're not looking. That's exactly what we did not want to happen. So what this is – this isn't about cost cutting per se. It's about changing the way in which we do business, and I'll give you some specific examples of that, part of which will be lower number of people. But that, again, is an outcome of our efficiencies.

So to give you two or three just simple examples, and I can go as granular as you want, and I'll tell you why in a minute. But one example is the combination of all the call centers from Group Insurance, Annuities and Life Insurance, right? You put them all together, you can be far more efficient. You can have less people. You can actually have much better customer service because it's a one-stop shop. You can actually cross-sell over time. It's just a much better outcome for customers when you do that. That's a mundanely simple example, but that's one example where you have better customer service or you may have higher sales and you have less people.

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Another example, we put into place over 100 bots. We had one chatbot that had over 200,000 hits last year. When you think about that and it's not one for one, but let's call it 100,000 less calls to call centers that will reduce that as well. We put into place through – part of what we're doing is investing in technology. We put into place a whole new front-end system for Retirement. When somebody goes on their mobile app now, they can withdraw, they can take loans, they can change their investment parameters. They can do all sorts of things. They can up their contributions to 401(k). All those things you don't need to go through a call center. You don't need paper. You don't need any of that stuff anymore.

Speaking of paper, one other example. We send out over 1.5 billion pieces of paper a year, okay? Not only does it sort of cut down forests, so from a sustainability perspective, but also from a cost perspective, we are eliminating vast loss of that over time through the digitization of processes, of putting things online, of having frequently asked questions put into places, where we can ping your mobile app and do that, and it will eliminate a vast majority of the paper that has to be sent out. That's worth tens of millions of dollars.

So as you think about all these things that we're doing at a micro level and at a macro level, those are what's going to transform the company, both in terms of speed and in terms of customer outcome. So those are just a few examples, but I could go on and on with more and more examples of what we're doing. It's exciting.

Jay A. Cohen Q
Analyst, BofA Securities, Inc.

It sounds like you have a lot of specificity around it.

Charles F. Lowrey A
Chairman & Chief Executive Officer, Prudential Financial, Inc.

We had three days of meetings. And I'll do one more granular thing, and then you could move on. But we had three days of meetings where the entire executive team met with every single corporate function and every single business for between 60 and 90 minutes apiece, driving at what they are doing to transform their work. We're then taking those results and we are translating that into metrics and dashboards by which to measure their progress from now till the end of 2022. If you came to me and said, Charlie, I'll get there by the end of 2022, I wouldn't believe you, right, with all due respect to you.

Jay A. Cohen Q
Analyst, BofA Securities, Inc.

You should. It's okay.

Charles F. Lowrey A
Chairman & Chief Executive Officer, Prudential Financial, Inc.

And that's because you need tripwires along the way. So this is the operator side of me that's coming out. But we're going to have dashboards, green, yellow, red, that's going to tell us every step of the way where people are, how they're doing, and what they have said they'll accomplish and what they will accomplish by the end of this period of time.

Jay A. Cohen Q
Analyst, BofA Securities, Inc.

Some of the themes that you talked about initially and some of the philosophy behind what you're doing, some of it was at the company already before. It sounds as if you're really – you even used the term sense of urgency, it sounds like you are accelerating and adding to the stuff that has been already part of the company's DNA.

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Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Part of it was in the DNA, part of it wasn't. So to be completely frank, there was a lot of good intention but it wasn't as focused on outcomes, right? So if you differentiate between intention and outcome, and so now we're concentrating on making sure that we deliver the outcomes we say we're going to deliver, holding ourselves accountable, holding everybody accountable, and really moving with a sense of urgency.

Why are we doing that? Because customers are. We live in a world of Amazon where people expect things in two days. Frankly, if I don't get it in one day, I'm disappointed now. Why should we be any different than that? And as customers' expectations go up, the expectations to ourselves have to go up. And that's what's producing the sense of urgency as we focus on the customer and customer outcomes.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Got it. Let's talk about the acquisition of Assurance IQ. It was, I guess, somewhat different to past acquisitions you've made, the size, the services. Can you talk about how you see it fitting together with your other business?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Sure. It was completely different than many of the things we've done in the past. If you think about the things we've done in the past in terms of The Hartford acquisition, Star, Edison, [indiscernible] (00:14:15) all the different things we've done, they've been existing companies with big embedded blocks of business.

This was very different. This is entirely a growth business. It's a growth business and that's one of the things we wanted. In a low-interest rate environment, we're looking for growth in different areas. It's a business with no interest rate sensitivity. That's important to us as we sort of diversify. It's a business on which we can put our own products as we go forward. They can teach us about technology, and they're already doing so in various way. They're incredibly sophisticated in ways. And over time, I emphasize over time, they can help us on an international basis with some of our other things.

We are excited about what we're doing with them, in part because they have 20 million permissioned shoppers. So we are able to deal directly with clients. And one of the things that we want is to have direct access to clients. We don't want to just be a product provider because I think you get commoditized over time.

And so, we see Assurance really fitting in in a whole variety of ways to our vision of how we're going to expand the addressable universe, and how they can help us going forward. Because the final point I'll make is in expanding the addressable universe, because of their economic model, they can access a different demographic than we can with our tight agency system and some of the products we have now. And, therefore, I think we'll be able to expand the number of clients and types of clients with whom we can do business.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

And so far, integration, everything is on plan?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

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Integration is on plan. So we have put a COO out there. We have put a CFO out there. We're putting a Chief Compliance Officer out there. But what's important is the COO. So if you think about the founders, what the founders do really well is to come up with amazing ideas and think about things. What we're doing is making sure the trains run on time. And so, we are already putting in place – this is really a fourth quarter business, right?

Jay A. Cohen
Analyst, BofA Securities, Inc.
Q

Yeah.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

So a lot of the revenues come in the fourth quarter. We're already putting into place now, we're registering all the insurance agents to be able to sell Medicare and Medigap in the fourth quarter because in this last fourth quarter we had a bit of a demand/supply problem, right? There was far more demand than we could actually supply, and we are rectifying that as we go forward.

And so, we're excited about what we're doing. We're excited about the product we're going to put in place, which is a simplified term product. We're moving that up from the third quarter to the second quarter, and we'll have that on the platform in the second quarter.

Jay A. Cohen
Analyst, BofA Securities, Inc.
Q

That's helpful. Let's talk about capital deployment and your philosophy around buybacks, dividends, M&A.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

So, first, on buybacks and dividends, and then I'll talk about M&A. So we have a philosophy where our earnings – where cash flow is about two-thirds of our earnings and we return a lot of that to shareholders in the form of either dividends or buybacks. You've seen us be consistent in our buybacks over the years. We've just put another $2 billion plan into place.

And in terms of dividends, we've increased dividends 12 years in a row. If you look at the past decade, it's been sort of in the low-double digits of the increase. And we think that's a very good way of both showing our confidence in the company as well as providing capital back to shareholders.

We think about M&A in terms of – and you've seen us do a whole – a number of different transactions in M&A, both domestically and internationally. So on the domestic side, you will see us do M&A in terms of additions to the existing businesses we're in. So in PGIM you saw us do the Wadhwani acquisition last year as an example, just to bring a skill set into PGIM.

On the International side, what you see is the divesting of certain businesses like Poland and Italy from low-growth markets where we don't have scale and investing them in higher growth markets. Over the past three years-or-so, you've seen us invest in Ghana, put more investment in Brazil in the Group business. You've seen us last year invest in Colombia, and we've also invested in Indonesia. So we're investing in higher growth markets as we go forward. And we've divested out of sort of smaller markets, where we don't have scale or competitive advantage. They're lower growth.

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Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Got it. Let's chip in to some of the different businesses. By the way, if you have questions, just raise your hand and we'll get a mic to you. We got a question right here in the middle.

Q

Wanted to ask about coronavirus. It's been very topical. And what I'd like to try to figure out is this: what level of mortality would you have to see from corona to cause a capital event for the industry in general and for PRU in particular?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Okay. So we do stress tests for pandemics and for a variety of different things. And it would have to be a fairly high degree of mortality.

Q

How high?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

I don't think we disclose that, but it's significantly – it's high. For us to have a capital event, if you will, and by a capital event, meaning that we would dip into our reserves. Now our stress tests show that at a very high level of mortality, we're still okay. But those are things we do every year as we look at this. So we're following it closely. We don't have a large business in China. The bad news, we don't have a big business in China. Right now, the good news, we don't have a big business in China. But we're following it very closely as we go forward. I get daily reports on this.

Q

It may be helpful in the future, this is up to you guys, but similar to how reinsurers and P&C companies do that to disclose, perhaps, some detail around pandemic stress tests and what sort of mortality at would imply that would cause an issue for you.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Duly noted. Thank you.

Q

Just commenting.

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Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Yeah. Thank you for that.

Jay A. Cohen
Analyst, BofA Securities, Inc.
Q

Another question. Hang on one second, [ph] Sam (00:21:16). We had a question right down in front. Let's get you the mic, [ph] Sam (00:21:19).

Q

Just following up on that. Where this thing stands now? Do you see, let's say, 1 in 200 events now being like 1 in 100 events or 1 in 50 events? Given what's happening now, how much increase in probability of a tail event exists now?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

On the coronavirus, very hard to say. I think, China – I mean, if you look at – there were couple of things going on, right? So China is dealing with this in a very aggressive manner now. You saw this morning that cases increased by a third. And so, the question that is out there is, is that just catch-up or is that a harbinger of what's to come? It's really hard to tell. So I can't give a prediction on that. All I know is that China is taking a lot of very serious action and I believe they'll continue to do what they need to do to contain it.

Jay A. Cohen
Analyst, BofA Securities, Inc.
Q

It's interesting. It didn't come up too much yesterday.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Yeah.

Jay A. Cohen
Analyst, BofA Securities, Inc.
Q

Corona, but...

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Well, I think there was some news this morning in that...

Jay A. Cohen
Analyst, BofA Securities, Inc.
Q

Yeah. No, the number of – I think, it sounds like a measurement issue, but we'll see.

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Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Thanks for that question. I wanted to talk about PGIM because the flows really have been solid, certainly relative to the industry. If you could just talk about what makes this business unique, and how you differentiate yourself as kind of the industry faces this wave of active to passive?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

So we think we have a unique model and that it's a multi-manager model, right? So we have very specific groups focusing on very specific sectors. And I think that's different for us. And we're an alpha-generating firm. So there is an inexorable shift to passive, but we don't think all assets will go to passive. Most institutions will have a passive amount and then they will have an active amount. And we want to be part of their active advisors as we go forward.

So what I love about this business is that it is just a brutal business, in that, either you perform or you don't. If you perform and you outperform your benchmarks and you do what you say you're going to do, then you gain assets. If you underperform, you lose assets. Over 80% of all our benchmarkable funds beat their benchmark, and they have, for a long period of time. That's over a one-, three- and five-year period. As a result, we have been the beneficiary of assets because we've outperformed. And we've continued to outperform, and so we've continued to garner assets.

But you have to continue to deliver the results. This is a ruthless industry, and we're happy to play in it. And we had board meetings over the past couple of days, and we did a review on PGIM, and we looked over the past decade. And a decade ago, we had about $500 billion to $550 billion of assets. We now have $1.3 trillion in assets, and we're the tenth largest asset manager in the world. Part of that, obviously, is appreciation. There's no question. But because we're so big in alternatives and we're big in fixed income, we're not as large in equities. A lot of it wasn't appreciation. And, therefore, it's really gaining assets. And the only way you can do that is by having superior investment performance, and that's what we deliver.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Should we expect one, two, three new products a year to come out of the PGIM?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

At least. So one of the things we tried to do in PGIM, they're multiple sides to it, but one of the things on the mutual fund side is to kind of all-weatherize the portfolio. So we've been very aggressive in having a lot of – creating a lot of new mutual funds as we go forward. On the alternative side, we're always creating new funds in real estate or for our private placements group or even now for our real estate finance group. So we're very big on the alternative side. And on the fixed income side, you've seen us develop a whole series of funds as well. So the fund generation is a part of how you garner assets, but it's also just responding to the market.

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One of the great benefits of having PGIM and PRU together is that we are able to fund many of the new funds in terms of seed capital to create a track record by which to then attract assets. So at any given time, we are establishing a whole series of new funds which won't kind of come to the surface, if you will, for a number of years because we need to develop that track record and that's what we're doing.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Got it. Let's talk about Annuities, and really let's look forward. Current interest rate environment, what's your outlook for annuity sales this year?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Annuity sales. We have taken annuity sales down, and they will continue to be at a lower level partly because we've raised pricing, right? So sales are an outcome of making sure that we price products in a way that meets our hurdle rates. And so, what we do is we allow sales to go down to a point where we don't destroy distribution, right? So there's always a tradeoff between sort of lower sales, how low can you lower sales relative to higher pricing and balance that to the level of distribution that you need to maintain a robust distribution.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Can I just ask just a follow up on that? When you're raising prices are you then losing sales to other annuity writers because they're not as disciplined as you or are you losing sales to other investment vehicles?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

I'll caution the last point of what you say because I don't want to make a judgment on competitors. But what we're finding is we're losing sales to other annuity providers. I'm not going to say that their pricing is wrong. It's just different than ours.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Yeah.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

So they may do things differently. But we find that we are raising our pricing when others haven't, and therefore many customers go there. But that's what you've seen across our businesses I hope, in Group, in Retirement and other areas, in Life, that we are disciplined about both our underwriting and the pricing of our products.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

[ph] Are you feeling as (00:28:36) the environment at some point stabilizes and you don't have to go down too far from the sales standpoint to disenfranchise your distribution partners?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

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Yes.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Okay. Any questions either on PGIM, Annuities, anything we've talked about, any follow-ups from anyone?

I wanted to ask about on the Retirement side, and just your outlook for the pension risks transfer sales. You, obviously, are a major player, I guess, the biggest in this business, so your view is kind of important.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Despite low interest rates, last year was a very good year. There were sort of $30 billion of PRT sales. This year will be interesting. There's a good pipeline going into the year but low interest rates. And equity markets and interest rates affect this market, so low interest rates means liabilities will be higher, meaning it's more difficult to transact for corporate clients.

On the other hand, higher equity markets, means that your asset prices are higher, so it becomes easier to transact. So I think I would characterize this as, hopefully, a good, but I wouldn't say it would be a great year, given where interest rates are. But the initial pipeline going into it is relatively strong. We'll have to see how low interest rates kind of effect it going forward. This...

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Sorry. Go ahead, Charlie.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

I was just going to say, the other part of the market is the longevity reinsurance market, so over in the UK. And we had a banner year last year, in part because of the anticipation of Brexit. Everyone was scrambling for the exit. So we don't think that market will be as robust as it was last year because of the specific situation of Brexit.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

And for these deals, are you seeing any change in the competitive environment for PRT deals?

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Still very competitive at the sort of lower levels. I'd put sort of three tiers into it. So the lower level being, sort of, $1 billion and under, which is kind of a cash market. And that's the most competitive market. And sort of $1 billion to $3 billion, you have a fair number of competitors. And over $3 billion, the market gets pretty thin in terms of the number of competitors. So it's remained, I think, relatively constant over the past couple of years. There were some new entrants a couple of years ago. It is a competitive market, there's no question about it. But more competitive as the amount goes down.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

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Got it. That makes some sense. We're getting down towards the end, but I wanted to touch on International and get your kind of outlook for Japan in 2020.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Okay. So the outlook for Japan is, I'll say it's reasonable. And I'll use reasonable in our context in a specific way. Most of the product we sell is US dollar-based product, right?

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Right.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

And it's recurring premium and death protection. And so, interest rates in the US affect our sales in Japan interestingly enough. The reason why – and that puts a downdraft on it. The reason why it's reasonable is because of the strength of our franchise in Japan. We have an extraordinarily strong franchise with four different distribution networks, so we have Prudential Japan, we have Gibraltar, we have the bank channel, we have the independent agency channel.

Between those four channels, we have a diversification of both demographic and socioeconomic clientele, and we have diversification amongst our sales forces. And so, it's a resilient platform in the face of lower interest rates which makes it harder. So I think it will be a reasonable year. It's not going to be a breakout year, given where interest rates are.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Q

Helpful. Any last minute questions? Sounds like you guys will have another very busy 2020.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

We will.

Jay A. Cohen
Analyst, BofA Securities, Inc.

Good luck with everything, and thanks for coming.

Charles F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

Thank you. Thank you so much. Appreciate it.

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