10-Aug-2021

# Prudential Financial, Inc. (PRU)

## UBS Financial Services Conference

# CORPORATE PARTICIPANTS

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

# OTHER PARTICIPANTS

**Brian Meredith**
*Analyst, UBS Securities LLC*

**Michael Ward**
*Analyst, UBS Investment Bank*

# MANAGEMENT DISCUSSION SECTION

## Brian Meredith
*Analyst, UBS Securities LLC*

Good morning, everybody. My name is Brian Meredith and I am the Insurance Analyst at UBS. From UBS, I've got my partner with me Mike Ward who follows the life insurance companies. And welcome to our next insurance fireside chat here. We have the great pleasure of having Mike Falzon from Prudential, as well as Darin Arita, who is the Head of Investor Relations to join us for our fireside chat. As a reminder, if you'd like to ask them a question, you've got the ability to do that on your screen's upper right-hand corner, there's an area where you can type in a question and Mike and I would be happy to answer it for you.

And with that, I'm going to turn it over to Rob for some prepared comments.

## Robert Michael Falzon
*Vice Chairman, Prudential Financial, Inc.*

Great. Thanks very much, Brian, and good morning, everyone. So, I'll keep this very short so we can get into the Q&A because I know that that's what people are primarily interested in. But I just thought I'd share a couple of reflections that I've been sharing during the course of the morning. First is that as we're coming off the second quarter, I think we as a management and leadership team feel quite good about our execution, executing well. We had another strong earnings quarter. And if you look at the underlying earnings power of the company, sequentially, it continues to grow.

We are ahead of schedule with regard to the variety of customer experience and cost initiatives as we've articulated them and, in fact, to achieve a milestone there of $0.5 billion of run rate savings about 18 months ahead of what we had originally envisioned. Supporting that are good fundamentals in our businesses, good flows, good sales. Exception would be our retirement and IIP business, but that's episodic and anticipated. So, we feel that each of the businesses has performed well and has a good outlook to it. We've reached record level of AUM and asset management fees within PGIM, our global investment management business.

Our Assurance business had revenues that were up 90%. We had a very strong recovery in the second quarter sales in our business in Japan, which we're quite pleased with in light of the pandemic experienced there. And then finally, in our US businesses, we've been at a very successful experience with our product pivots and our repricing.

And so, we continue to have leading market shares in both our Annuities and our Life business, having in the case of Annuities transitioned away from traditional variable annuities and into our FlexGuard buffered annuity product. And in the case of Life, pivoting away from GUL toward Term and Variable Life.

Also as highlighted prior to the quarter, we're making good progress against our disposition objective. So, we've now – including the pending, but announced sale of our retirement full service business, we would have proceeds of $4.2 billion against the objective of freeing up to redeploy between $5 billion and $10 billion from our existing businesses.

With respect to that capital, we're being very thoughtful about how we redeploy it. So, you've seen us invest in creating long-term sustainable growth for the company. Specifically, we made a relatively small but important acquisition in PGIM, creating a secondary private equity capability. And earlier, you saw that we also announced the closing of a second investment in Africa for us. In this case, in Kenya with ICEA LION, and we're quite excited about the long-term prospects for growth in that marketplace. We're balancing that with a redeployment of capital back to shareholders. So, $2.2 billion of capital returned to shareholders in the first half of the year. We announced twice now an increase in our targeted buyback, so that's anticipated. Our targeted buybacks for the year are $2.5 billion and that takes our target through 2023 from the originally announced $10 billion up to $11 billion over that period of time.

And then, finally, from a broader standpoint, I feel really good about how we're executing against the transformation strategy that we have for the company. The elements of that are in the, first instance, being able to provide more solutions to more customers, but doing that in a way that finds the intersection of value for customers. So, we're doing the appropriate things from the product pivots and pricing standpoints that creates that value proposition for customers, but also creates a good experience for our shareholders by reducing the market sensitivity that we experienced in our businesses and the products that [ph] they'd (00:05:07) sell.

Secondly, by expanding our customer reach and improving customer experience. Elements of that are expanding the addressable market that we have in each of our three businesses. So, both with PGIM, with our international business and with our US businesses, and we have strategies that are going well in each of those. And in addition to that, from a customer experience standpoint, the efficiencies that I talked about before are not just producing the $0.5 billion growing to $0.75 billion of operating sales, we're actually producing a better outcome for our customers and frankly, for our employees as well. And then, finally, all of that – what I've talked about accumulating [ph] in (00:05:49) a change in our business mix. So, our desire to have a business mix which is higher growth, less market sensitive and producing compelling economics that ultimately translates into a good experience for our investors.

And with that, Brian and Michael, turn it back over to you guys. Thank you.

# QUESTION AND ANSWER SECTION

**Brian Meredith**
*Analyst, UBS Securities LLC*

Q

Yeah. Thanks, Rob. Yeah. So, just kind of adding on to some of those comments here, I think, as Prudential continues to transform here, can you talk about how you're trying to get your employees to work, call it new ways that would make a difference from their perspective, [ph] kind of via (00:06:20) customer, employee experience, cost, those types of things?

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Yeah. So, it starts – actually, one of the very first things that [ph] John (00:06:27) and I focused on when we took the reins of leadership for the company that sort of is more of an internal dynamic than may have been noticed externally, but there's a real shift in culture for the company. And a key element of that was around accelerating decision-making. Where that manifested itself externally was the $0.5 billion, then up to $750 million of cost efficiencies where we wanted to accelerate the implementation of things that were otherwise take a decade to do, but it also had a lot to do with customer obsession with being kind of risk smart and technology forward.

And so, a couple of – there were four or five dimensions that we articulated in order to try to move the culture of the company toward one that was more focused on customer, customer experiences and outcomes and in the course of doing so, also creating better experience for our employees. We stood up a transformation office, Brian, to help with that, and essentially, institutionalized a constant transformation capability within the firm which now has over a thousand different initiatives that are associated with it, all of which are tagged with a specific outcome either for the benefit of our customers or the benefit of the employee experience and dealing with our customers, which then produce those efficiencies. And I think the discipline that we've created around having that process institutionalized in the way that we have will continue to pay dividends for us on a go-forward basis. And those dividends will be in the form of not just continuing to watch our operating margins improve, but also making us more competitive in the marketplace by being able to be more price competitive and being able to create a better experience for our customers.

**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Thanks, Rob. So, maybe switching over to retirement segment, with the recently announced sale of full service, just wondering if we could dig in a bit more to some of the motivations behind that and how that might fit into the transformation initiatives.

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Yeah. So, let me start, Mike, by saying we remain committed to the retirement business. It is a big marketplace. We're going to have an ongoing presence in that marketplace. It will – our presence is there in our PR, pension risk transfer and longevity risk transfer businesses. It's there in the form of our annuities business, which is providing critical decumulation capabilities into a market that's going from accumulation to decumulation. And obviously, we're there in the form of PGIM, our asset management business, both with respect to the focus that they have on DCIO, so Investment-Only Defined Contribution (sic) [Defined Contribution Investment-Only] (00:09:06), as well as their very significant presence as a manager of funds for pension clients.

With regard to the recordkeeping business, specifically, it is a quality business, but it's a business that we thought that not being in that business would further our transformation with an objective to enhancing the overall growth profile of our business and reducing the market sensitivity in that particular case, interest rate sensitivity of the business. And so, we're also faced incidentally with what we thought was a decision where we even needed to make a major capital investment into the business, because it's a business where scale is increasingly important. And you're going to have to be – if you're not selling, you're acquiring and there's – and the bar on technology investment continues to rise in it. So, given the growth profile of the business, given our ability, what we thought [ph] were (00:10:10) the ability to leverage the platform on a go forward basis to the benefit of other businesses and [ph] there's (00:10:16) significant capital investment there it would require. We came to the conclusion that by selling the business, we could actually improve the overall business mix profile.

And so, undertook to do so. Very happy that it's going to land in the hands of Empower who we think will be a great operator that will be good for our customers which we care a lot about and for our employees. So, quite happy with the arrangement that we struck there.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Great. That makes a lot of sense. So I guess, you started out with talking about what remains in retirement. So, I guess sticking with PRT for a second, it's gotten a little bit more competitive, and although there's probably not many players out there with your brand recognition or capabilities, I'm wondering how you view the pipeline as we enter the back half of the year. And then how does PRU differentiate itself in that area?

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**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Yeah. So, reiterate what you said, Mike, it's a – that – our capabilities – we were a pioneer in that market. We have a strong set of capabilities. We have a unique track record with respect to execution on that and customer experience, [ph] after the fact (00:11:26) which is critically important.

And we have a strong brand, I think, that serves us well in that marketplace as well which gets us first and last look at a lot of transactions. As we look at – when we first pioneered the market to where we are today, we have to acknowledge that where we were the only or one of one or two players in the jumbo segment of that market. There are now half-a-dozen different firms that, in addition to ourselves, that are all playing in that space or it has become competitive. But having said that, it is a large market that continues to grow. We had, I think, $4.5 billion-ish of transactions in the second quarter. A lot of momentum heading into the second half of the year. The average pension plan is 99% funded at this point in time. CFOs recall the experience what happened to those funding levels when we hit the dot-com bubble and the financial crisis and I don't think they have much appetite for experiencing that again. And so, [ph] there'll continue to be (00:12:24) good demand to transact.

And so, given the strength of the platform that we have, given the outlook that it will remain quite robust, we continue to be quite optimistic about getting our fair share of that marketplace, I think, by focusing on the jumbo sector, where we think both our capabilities are differentiated and the returns that we can get in that sector are attractive as well.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Got it. That leads right into my next question. I was going to ask if there's a target size for new deals or if there's capacity or interest in another megadeal or deals jumbo?

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*
A

Yeah. I think we don't necessarily draw a line under a specific number. But what we look for is where the deals get larger that the competition begins to become with a handful of players as opposed to, I think, it's a broader set of players that can play when you get dealing in the hundreds of millions versus the several hundreds of billions [indiscernible] (00:13:18) starts to get – the field of players begins to fit out.

With regard to large transactions, we have capital capacity appetite both [indiscernible] (00:13:32) capital and our appetite for longevity that we would be interested in entertaining very large transactions as we've done in the past. And I think that's differentiated versus what others may be able to do in the marketplace.

**Brian Meredith**
*Analyst, UBS Securities LLC*
Q

Okay. Rob, can we pivot over to the international area? The transformation initiative, could you discuss areas where you're targeting for growth internationally, any specific regions, countries, call it product lines, distribution channels, what's the kind of strategy here as we're going forward?

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*
A

Yeah. So, Brian, as I think about our international business, I like the international business, I like the footprint that we have in our international business. And our focus is really on growing the platforms that we've got, the constellation of businesses that we have internationally today, specifically that includes, obviously, Japan, and there's a dominant presence within our international portfolio, but also a dominant presence in that market. But outside of Japan, the emerging markets where we're very focused on the higher growing markets in Asia and Latin America.

The nascent, but useful and [ph] more (00:14:43) long term, great growth prospects that we see in Africa as areas that we want to continue to focus on. So, I'm sort of thinking about those in pieces. With respect to Japan, we have – we're continually able to demonstrate that we can grow faster than the market. We capture market share perennially. We are the number two in that marketplace, including the indigenous players on a new business basis. So, we're quite a large player with a differentiated, very successful distribution model there that allows us to continue to capture market share.

We'll grow in Japan both by adding more life planners and life consultants, so agents in the marketplace, which really drives most of our growth, but also by expanding geographically. We're very concentrated in the Greater Tokyo Area, the prefectures outside there, we have opportunities to grow further. The association marketplace in which we're involved through our Gibraltar business, we can also penetrate further. So, we see good growth opportunities there in our traditional death protection, but also the opportunity to grow [ph] it (00:15:46) beyond death protection in areas like retirement, which is sort of the next evolution for us in Japan. So, using that distribution to increase the numbers of – the ways in which we can solve for challenges that our customers have.

When you go outside Japan and you think about each of the markets we're in, we – in Latin America, the two sort of premier franchises we have there is our [ph] Afore (00:16:13) business based out of Chile. But we're the number one in Chile and the number two in Latin America in [ph] Afore [ph] so pension management. So, we're quite excited about the ability to grow that business both organically and inorganically which we have in the past. So, we acquired a business in Colombia, by way of example.

And in Brazil, where Brazil is the largest insurance market in Latin America, it's like 60% of the market. And we have the largest individual life insurance company in Brazil. We've complemented our – just our life planner model there with a – with third-party distribution and with a group business that we acquired a couple of years back. So, we'll continue to look at expanding in Brazil and in Latin America and again, like in Japan, looking beyond protection into the retirement space as well.

And then, with the footprints that we've got in Asia and Africa, it gives us an opportunity to be – to have boots on the ground. So, we're a smart acquirer there. And with platforms that we can leverage, so we get better economics from the [ph] set (00:17:16) of things that we're looking at that someone de novo going into that market might be able to yield versus what we're looking at. So, very much around programmatic type acquisitions in markets in which we're – which we are already operating successfully.

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**Brian Meredith**
*Analyst, UBS Securities LLC*

Q

Got you. Got you. What about divestments? I mean, you just recently divested Taiwan, Korea. Are there any others as you kind of look at your portfolio?

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**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

So, as you point out, Korea, Taiwan, earlier than that, Poland and Italy as well. There's nothing material that I would call out on a prospective basis that we're looking to exit from that marketplace. So, I think the most significant things that we've looked to do in order to hone into a footprint that we're focused on are largely behind us at this point in time, Brian.

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**Brian Meredith**
*Analyst, UBS Securities LLC*

Q

Great. Thanks.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Great. So, I guess moving over to PGIM for a second, so on the PGIM piece of the transformation, just wondering if you're targeting expansion into specific asset classes, customer bases, or specific regions there.

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**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Yeah. So, Mike, start with acknowledging, PGIM is already at scale as an active multi-manager and successful in each of the areas in which it's engaged. So, we have a very significant both private and public fixed income capability. Now, with the Montana acquisition that we've made, both the private and public equities capability, and then – and similarly within alternatives, the premier piece of which would be our real estate platform. We're one of the handful [indiscernible] (00:18:53) second, third largest between equity and debt in the world on that.

From a focus standpoint, it would be very much like what you've seen us already announce this year that I highlighted upfront around the Montana acquisition. We have very specific capabilities that we're looking to add as opposed to simply adding scale. The multi-manager model has worked well for us. And so, we're looking for capabilities in real assets. So that would include things like infrastructure.

We were looking to do something in the private equity space. We've now done that, so we're happy with that. We like and are interested in the private credit space, and we're looking to grow internationally. If you look at the footprint that we have, about 30% of our AUM comes from outside the US. And when you look at the market, it's 40%, 45%, maybe even 50% of the market of AUM, probably 45-ish percent or so is from outside the US. And so, we have an opportunity to grow our platform from 30%, 35% to 40%, 45% and we'd look at both organic and inorganic opportunities to do so.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Got it. Very helpful. So, asset management, I guess, sort of market multiples have been elevated recently. Does that impact at all how do you view or your willingness to pursue sizable bolt-on deals or how does that weigh into sort of your required return rates as well?

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**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

So, we're very disciplined from an acquisition standpoint. We look at it from a multiple of financial lenses and strategic lenses. And it has to make sense for us both from a financial and strategic standpoint. When we look at – we obviously look at all things you would expect from a financial standpoint. So, looking at the accretion associated with the transaction, the ROE that we can get and the pattern or the evolution of the earnings that are associated with those returns are important to us as well and the free cash flow that we can get. Also look at how any acquisition we would do would complement the existing franchise that we've got. So, what we find very interesting about the PE space that we enter from a secondary standpoint is in our conversations with CIOs around the world, one of the things that they highlight in virtually every conversation is the need for liquidity in their privates portfolio, whether that be in equities or otherwise.

And so, having a secondaries capability puts us around the table [ph] with (00:21:25) an important conversation solving needs that they've identified that [ph] works (00:21:29) to the benefit of our other capabilities which we can then bring into that conversation. And then the halo effect goes the other way as well. We have 1,600 clients. And that will [ph] be (00:21:39) to the benefit of Montana's platform in terms of their ability both to tap them from an AUM standpoint and to think about an engagement in solving problems from a secondary standpoint.

So, absent an ability to find things that land in that intersection of both strategic and financial interest, we would look to be good stewards as we've always been of capital and we will return capital to shareholders. But we remain optimistic that through both inorganic and organic ways that we can change the overall mix of the portfolio at the end of the day such that as investors look at us, they'll look at a collection of businesses that have higher growth and lower volatility and command a better multiple in the marketplace.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Great. So, there's been industry-wide fee pressure for a number of years now. Just wondering if it's driven strategic changes or like you've been saying, should we expect to continue to see AUM shift more into more specialized areas over time?

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**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

So, in industry phenomena, we've not been – we're not going to be – be that industry phenomena. We see it as well. You wouldn't know it, because our asset management fees have been pretty stable at around 21 basis points for a very long period of time. But that's a reflection, Mike, of a very conscious growth strategy that's allowed us to offset the industry-wide pressure on fees. So, first, I'd note that we've got in excess of $0.25 trillion of alternatives already even before the acquisition of Montana.

And alternatives have not experienced the same fee compression that we have in the fixed income and equity markets, in particular, the public sectors there. And so, that's helped quite a bit from that standpoint, because obviously, our alternatives are – not only have – we do not have fee compression, but that – those are [ph] all (00:23:38) the highest earning fees we have within the portfolio. So, they have an outsized contribution to our asset management fee profile.

The way in which we've been growing organically has helped. So, a lot of our organic growth has come from international and higher returning strategies, which tend to command higher fees, they are more core strategies. And as we look at our inorganic growth that I articulated before, whether it's in PE, real assets like infrastructure, private credit, which is of interest to us, [ph] or (00:24:16) the international strategies where we're looking to grow more internationally, all of those areas are higher fee areas. And so, the combination of how we're growing – the combination of having resilient alternatives, the organic growth that's been skewed toward higher returning strategies and the inorganic strategy, which is toward higher fee strategies as well [ph] or (00:24:40) higher fee asset management capabilities, the – all that leaves us optimistic that we'll continue to be able to demonstrate solid earnings in the business and be able to grow those without some of the negative experience that others have had from a fee compression standpoint.

**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Got it. Makes total sense. So, I guess we can shift over to individual annuities for a second. So, the decision to wind down sales of policies with guarantees, I think, makes sense and is likely appreciated by investors. But just wondering if you could help us at all to understand some of the differences between the economics or the margins between VAs with and without guarantees.

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Yeah. And so, maybe to answer that, Mike, I'll talk about sort of our legacy block which is VAs with guarantees versus what we're selling today which is FlexGuard buffered annuity. So, it has protection, but not guarantees. And so, that's the first distinction, right. So, it's not a guaranteed outcome, it's a protected outcome. And it creates – it creates a good customer value proposition as evidenced by the level of sales that we're witnessing, but a much better shareholder experience from the standpoint of the volatility that's associated with that product as contrasted to the accounting volatility that we see in our traditional VA product.

It is a less capital-intense product in addition to being less market-sensitive. And the hedging associated with it is quite simple. And actually, it's done on kind of a weekly basis and locked in for the period of the guarantee. So, while we fully hedge our legacy product, it's a more sophisticated hedging capability [ph] as to address (00:26:24) the very simple, readily market available hedging that's required for the FlexGuard buffered annuity product.

So, it has a very, very different risk profile, but very attractive returns to us. So, not getting the same level of very high-teens returns that we're associated with our HDI product, but on the other hand, getting really attractive returns. And beyond that, there's a diversification benefit that we get for being in that product that sort of even further turbocharges those returns that firms like ours that have both our HDI product and our FlexGuard product, there are statutory capital diversification benefits associated with that that make it an even more attractive value proposition for us and for shareholders.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Got it. Yeah, [ph] I know (00:27:15) that makes a lot of sense. And I guess, so sticking with FlexGuard, they've been growing in popularity for the industry. For PRU though, do you think they really have the potential to sort of offset over time some of the lost earnings from the wind-down or maybe inorganic removal of the legacy lock?

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**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

So, a couple of thoughts, Mike. One is, yeah, the buffered annuity product is doing quite well. So, industry sales in annuities are up first half of the year, some 20-ish percent or so. But, buffered annuities were up like 100% over the prior year. And you're seeing that only in the variety of sales, [ph] we've got also have other (00:27:57) participants in that sector. So, we're doing a $1.5 billion to $2 billion on a quarterly basis of FlexGuard which we're quite pleased with.

The – as we think about that opportunity set and we think about our legacy business, the legacy book is running off at around $3 billion a quarter. It's been a little more than that in the first half of this year. But, we think, on average, it'll be about $3 billion a year, Mike. I wouldn't want to speculate as to whether we'll have sales sufficient in FlexGuard ultimately to offset the entire run-off in the legacy block. We'll sort of see how that works out. And we're going to continue to innovate in the marketplace, obviously.

But, to be very clear, when we talk about our desire to reduce the exposure in our annuities book, it is very much focused on the legacy VA book. And while it has very attractive economics, we recognize that those economics are not well valued in the public marketplace. And so, when we talk about taking the VA business from 20% down to around 10%, it's that legacy book.

So, we're happy to grow the FlexGuard and have that continue to add to our earnings and to look in isolation at the legacy VA book and have that go down to our 10%. We get 40%, 45% of the way there just through organic runoff of that $3 billion per quarter, and then we'll look at doing something from a derisking nature to help us get the rest of the way there by our target in 2023.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Got it. So, I guess, recently or one of your competitors re-entered the market for VAs with guarantees recently given the pricing dynamics. Was that a topic of discussion internally or no?

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**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Well, we would – obviously, everything happens in the market is a topic of discussion. But with respect to how we would think about doing something similar to that, no, not something we would contemplate. It would run entirely contrary to the strategy that we've articulated around the derisking and reduced market sensitivity that we're trying to create in the business mix that we have on a go-forward basis. So, I – we are quite convinced that there are good customer value propositions outside of the more traditional VA that have application in the marketplace and we're also quite convinced that that produces a superior experience from an investor standpoint. So, we're going to stay [ph] to (00:30:31) the course.

**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Got it. So, wrapping up annuities here. I guess, when we think about your legacy block, are there any specific aspects that either drive your confidence in being able to pursue risk transfers and maybe how might your block differ from pure legacy blocks?

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

So, in commenting about the risk transfer, I just want to reiterate what I said before. So, while it's an important piece to ultimately close the gap, there is a significant – we get [ph] significantly toward (00:31:02) our objective of having the block simply through the organic run-out and in fact, if we didn't do a risk transfer transaction, we could still get there. We just take a little longer period of time to get there. So, we're going to remain disciplined around any exit that we do, because [ph] we know it's not a have too for us, it's like too (00:31:20).

Having said that, I think that the – there are tailwinds in that market. There's an increasing number of players that have an interest in VA blocks and an increasing number of players with larger transaction size appetites in the market. So, you've already seen that from a historical standpoint, $1 billion to $2 billion transactions are very executable within the marketplaces. Lots of – [ph] there's (00:31:47) a decent precedent for that.

As we look – I don't want overstate that [indiscernible] (00:31:51) So, tailwinds are there, but it's still – it doesn't look as deep as the market for term life insurance, by way of example. But there are tailwinds and it's a market that's growing in depth. With respect to our [ph] bigger (00:32:04) block, Mike, and your question there, I guess a couple of things I'd note. One is, it's a seasons vintage, our block of business, so very easy to see customer and other sort of experience within the block. It's largely in the money block. So, again, from that standpoint, much more – a reasonably predictable block of business. Well capitalized and well hedged, that's the way we designed it upfront.

The auto rebalance feature that [ph] we having it (00:32:37) both removes the tail risk associated with equity market declines and reduces the cost of hedging in equity markets as well. So, an attractive feature that's built into there that as people look at the book and they come to appreciate how that's a significant risk mitigant and cost reduction from a hedging standpoint. And it's a block of business that's got a high return to us and a high level of free cash flow. So, we think it stacks up well with other blocks of business that have or could be contemplating going out to the market.

**Brian Meredith**
*Analyst, UBS Securities LLC*

Q

Hey, Rob, let's pivot over to the life insurance business. It's been interesting over the last couple of years looking at the life insurance industry and a lot of people are getting rid of life insurance. And so, the question, I guess, I have for you, as you look at some of your life blocks, legacy areas, et cetera, et cetera, are there any that you are more or less interested in maybe de-risking here, doing transactions, doing some stuff to de-risk that portfolio?

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Well, it would be consistent with the theme that we've articulated which is around reducing market sensitivity of the overall business mix. And so, the products in there that have most market sensitivity would be the very long-duration GUL products. And so, those are the things that we've pivoted away from and would consider doing a de-risking transaction around that as well.

I would note that the insurance market in the secondary space is more robust than the annuities market, but the GUL segment of that is not as developed as the term segment, by way of example. So, there are opportunities in that marketplace. We will look at that, are looking at that. But, I would say it's a secondary priority vis-à-vis looking at the annuities book which we think the – both in terms of quantum and – total quantum and volatility, the annuities book will be more transformational to the valuation of the company than doing a transaction in the life space.

**Brian Meredith**
*Analyst, UBS Securities LLC*

Q

That makes sense. And then I guess on that kind of topic there, I mean, clearly [ph] growing (00:34:56) the PRT business, how does that – doing potentially some life insurance transactions, wouldn't that offset some of this longevity kind of risk exposure that you have? And as – do you think about that at all as you kind of grow in the PRT business, how do we balance it on the other side?

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Yeah, Brian, we do. We have an objective to roughly keep in balance the risks that we have from both a mortality and longevity standpoint. We think that that served us well before the pandemic and clearly – very clearly through the pandemic, has been a mitigant to our mortality experience having the longevity book that we've had.

Having said that, I'd sort of note a couple of things. One is we have a very robust and growing, both US and international, specifically in Japan, our life insurance business, so we continue to grow new business and therefore are generating new mortality risk quarterly. And at the same token, the run-off in the PRT book is around $7 billion a quarter between pension risk transfer and longevity risk transfer after [ph] driving (00:36:01) for interest. So, you have – you got – you've got – the longevity burns off faster than our mortality burns off. And so, you have to run a little faster just to replace that longevity – just to replace that balancing.

**Brian Meredith**
*Analyst, UBS Securities LLC*

Q

Yeah.

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

So, we do not see any constraints for appetite on the longevity side by virtue of the combination of that dynamic.

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Good. Really helpful. And just a reminder to the audience, if you want to ask a question, upper right-hand corner of your screen, go ahead and type one in. And I'm going to pivot over to Mike who is going to ask some stuff about [ph] Assurance (00:36:29) IQ.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Yeah. So, on Assurance IQ, just how is your strategy, or I guess, has your strategy or vision for Assurance IQ changed at all since the acquisition just thinking in terms of the expansion into Medicare last year? And are there any other areas, or I guess, revenue lines that you're considering for that business?

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**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Well, first what I'd note, Mike is, it is a fast growing, highly scalable business that's core to the strategy that we've articulated around expanding our addressable market. So, having that direct to consumer agent-assisted capability is something that we think – it's the reason we acquired it and continues to be the compelling strategic rationale for it. Having said that, it is a – has the additional features to it of being a capital light business that introduces third-party distribution into our platform solving for customers' needs. We don't have to manufacture all the products. We find that to be a compelling attribute to it. And by virtue of the fact that it's a distribution model, it doesn't have the same market sensitivity that we have in other of our businesses. So, really lines up quite well with the overall strategy of where we're trying to go.

We've not fundamentally therefore changed our aspirations or strategy for the business. Now, having said that, we'd always envisioned that we would add products to the platform and continue to expand the types of needs that we can solve for. So, one of the earliest things that you saw us do was to add simply term, a term product from our own shop onto that platform and we're successful in getting it rolled out. It hasn't grown as rapidly as we initially would have liked. But having said that, we understand why and it has to do with the level of automatic underwriting that we're able to get. We've been fine-tuning that machine and moved it up from sort of a 10% approval rate to 40% and we think we're going to get to 70% by the end of this year. And we think with that, we'll sort of double, as a potential, double the level of placements we're getting out of our term product. So that was envisioned and so consistent, but happy with the progress that we're making there now.

Medicare is something that probably was not envisioned to be as material as it's become. We had envisioned getting into that segment, but it was – the growth that we've seen there has, I think, exceeded our initial expectations as to how that would play into the platform. So, we're quite happy with the capabilities we have there, including having hired sort of a dedicated management team there with experience from a competitive shop that's leading that business and producing tremendous results for us. We've introduced P&C into [ph] there (00:39:22). We're broadly looking at personal finance, including things like mortgages and otherwise, third party provided. So, we're quite excited about the ability to use that platform to both enhance our existing capabilities and sales of our own products, but also as importantly, about solving a broader set of customer needs that we don't want to be in the manufacturing business, but we very much want to be able to solve for customers.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Got it. Makes a lot of sense. So, I guess, could you discuss a little bit the benefits that Assurance IQ has had or what you expect to see going forward, just kind of on enterprise-wide costs such as distribution? Or is the focus largely on kind of growth in sales on top of the sort of external products where we can participate in the distribution? Or is the focus more on just sort of selling your own products on the platform?

**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Yeah. I would say there are many ways in which the platform is interfacing with our existing business and having better outcomes either for the platform or for our existing business. But, obviously, the two things that I'd focus on, Mike, would be, first, sales of our products. So, we have a desire to reach deeper into the socioeconomic demographic. We recognize to do that, it needs a combination of different products at different price points and a different distribution system. And through simply term and assurance, we're able to deliver a product that's appropriate to the marketplace at a price point that's compelling and a distribution system that has a very low cost of delivering it. So that works to getting into that socioeconomic demographic, which we think is a large unmet need. We'll complement that with final expense that will be an additional product that we'll get onto that platform. And I think that those are areas where we think will present attractive growth opportunities for us.

The other area which I think is interesting that we sort of thought would be a benefit, but is coming through much more tangibly is how the artificial intelligence that's used to create the right customer outcomes in their platform is we've also been able to apply to our own customer flow coming in. So, the combination of pru.com and our financial wellness platform, where we've got retail customers coming into our platform, we're actually able to use the same sets of principles and artificial [ph] intelligent (00:41:58) programming to channel those customers into the right place within our organization in order provide the appropriate solutions for them, whether that'd be with a PRU advisor or whether it'd be on the assurance platform or whether it'd be on an end-to-end self-serve capability that they can have.

And so that's been – and again, getting them for the right solution, so that can vary between an annuity solution to a life solution or otherwise. So, it's been helpful as we think about our retail advisory strategy and how we create a more holistic interface into the marketplace there and have a lot of machinery behind the curtain that allows people to simply enter in and wind up in the right place without it being a select experience for them.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Got it. That makes sense. And I guess in terms of the shoppers that you have on the platform, you report a large number of them each quarter in the millions, I think. I've got to imagine most of your competitors would be envious for that kind of volume or activity on an in-house platform. Just kind of wondering how do you drive that much traffic?

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**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

So, yes, [ph] well (00:43:08), 7 million customers in the second quarter which was actually down from the first quarter. Recognize that fourth and first quarter, we had the Medicare. So, it's even higher level of customers than that. Having said that – well, actually, let me – let me actually sort of emphasize a point associated with that. That customer traffic is not just people visiting the site. Those are people who are actually getting proposals. So, it's – [ph] they're at (00:43:39) the site, they've given us enough information that we're actually able to give them a proposal. And so, maybe all the more impressive a statistic, Mike, from that standpoint and it's not just traffic, it's actually what we call customer traffic. So I wanted to emphasize that.

In terms of driving that traffic, it's a – it's primarily through digital sources where we're using both our own digital capabilities and our artificial intelligence to create a customer experience that gets them to take the first look, so a lot of that is in the marketing and the customer acquisition upfront piece. But then bringing them through the experience to where they're actually getting a quote is all about the artificial intelligence that we have in place, which matches them with the appropriate advisor and with the appropriate solution, so that we're able to create a very efficient bespoke kind of an experience for them.

The other thing I'd note is, the agent-assisted digital channel, [ph] DRGA (00:44:45) I guess is the acronym that's used within the industry, I'm not 100% sure I understand what that stands for, but it's where you've got this hybrid model of agents that assist through a digital channel. That's one of maybe the fastest growing segment within life distribution channels. And so, I think, to a certain extent, we're also riding the tailwinds of that. Pure digital distribution is minuscule, really even on the radar at this point in time. But when you combine digital distribution with agent-assisted and we've taken that to the next level, so we have not only our contract agents, but we're building a hybrid advisor capability. We now have 350 hybrid advisors on the platform. That is a very fast growing segment and we're finding that particularly in younger populations, a high level of engagement there and so we're benefiting by, I think, a broader industry trend, as well as our own sophisticated analytics and artificial intelligence.

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**Michael Ward**
*Analyst, UBS Investment Bank*

Q

Got it. That's all very interesting. So, just going to wrap things up here, we're coming up on time. So, I wanted to ask you one last question. In honor of someone who is both a good friend of yours and my former mentor. This was one of his all-time favorite questions for executives like yourself at the end of the meeting. So, as a member of Prudential's leadership team, what keeps you up at night and then, on the other hand, what helps you sleep?

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**Robert Michael Falzon**
*Vice Chairman, Prudential Financial, Inc.*

A

Yeah. So, when I would have last spoken to John, I'd probably have a different answer today than then. The – I would maybe channeling our prior CEO. The thing that actually I worry about most of these days is around talent, Mike. As we're witnessing what's occurring across the marketplace on talent and as we're going through a transformation, what we're seeing is that there's a skillset required for how we're operating in the future that's not as readily available in the marketplace as one would think.

And so, we're making an enormous investment in ensuring that we've got the right people and that we're reskilling and upskilling people in order that – so that they can be relevant to us and help us – us help them to advance their careers and us benefiting from that is to ensure that we have the capability to execute on a go-forward basis and I could give you hundreds of examples of that across the various functions and businesses that we have. But it's an issue that I think is happening across the economy, [ph] there are (00:47:03) 10 million job openings and there's a reason for that. [ph] If (00:47:06) there's dislocation at the frontline segment of that, when you remove that piece of it, there's still this fundamental issue of where the job openings are or not, where we've got lots of skills and talent that can fill those jobs and we see that. And so, I worry about getting [ph] picked off with the (00:47:27) great talent that we've got and I worry about being able to attract the right talent in to continue to execute against transformation. So, that's what's keeping me up at night.

I sleep better at night knowing that we've invested a lot into this as part of our transformation. We have something we call the talent marketplace and it's very much around identifying opportunities for individuals and providing the skilling and the reskilling that they need in order for us to be able to remain competitive.

I also sleep well at night knowing that I think we're extremely well-positioned to execute against the transformation strategy that we've articulated to the marketplace. I don't lose sleep on that piece of it. So, I wouldn't answer it that way. I think – well, I know investors are – will judge us on our execution. And so, there's some of that yet to come. We think we've demonstrated very well to-date both on the disposition and the acquisition side and the transformation of our existing businesses through product pivots and repricing. But I'm quite comfortable that we can continue to execute there and ultimately deliver on the objectives that we've laid out to the marketplace. So, not losing sleep [ph] without (00:48:33) that. That helps. So, thank you, Mike.

## Michael Ward
*Analyst, UBS Investment Bank*

Thanks a lot, Rob. That was great.

## Brian Meredith
*Analyst, UBS Securities LLC*

[ph] Okay (00:48:39). Thanks, Rob. That was terrific. Appreciate your time. Really, really insightful. Learned a lot there and I really appreciate it.

## Robert Michael Falzon
*Vice Chairman, Prudential Financial, Inc.*

Thank you, Brian, and thank you, Mike. And thanks, everyone, for your interest and tuning in. [indiscernible] (00:48:54)

## Brian Meredith
*Analyst, UBS Securities LLC*

Thank you.

## Robert Michael Falzon
*Vice Chairman, Prudential Financial, Inc.*

Okay.