

OLIVER WYMAN

Financial Services

# Insurance



## 10 Questions With ...

**Tidjane Thiam,  
CEO, Prudential plc**



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# Life insurers in context

**Oliver Wyman** **First of all Tidjane, thank you for talking to us today. Over the last decades the story of the life insurance industry has been increasingly about savings more than life protection. With traditional life and pensions tax advantages eroding, what do you see as the role of life insurers over the next era?**

Tidjane Thiam The capacity of traditional forms of support – whether those are the state, the employer or the family to assist is reducing dramatically, and individuals increasingly have to take responsibility for building and securing their needs for protection. Life insurers can help them do that. This is particularly true in the parts of the world – Asia, the US and the UK – where Prudential operates.

**Oliver Wyman** **With the current trends in longevity and retirement needs, do you think today's model for retirement provision can meet the future demands of an aged but active population? What do you see as the right balance between public and private sector?**

Tidjane Thiam Clearly the responsibility will fall increasingly on each individual to provide for their own retirement. That is the main way that people will be able to continue to live ever longer lives at the standard of living they have been accustomed to, whilst at the same time accessing the highest quality healthcare available. In most of the markets in which we operate, it is going to be difficult for anyone to rely on the state for anything more than a relatively modest portion of their total retirement needs.

**Oliver Wyman** **Most European life insurers came out of the financial crisis relatively unscathed. To what extent do you see this creating a long term advantage for European insurers compared to their US counterparts and compared to banks?**

Tidjane Thiam Financial strength is clearly a competitive advantage in today's environment. We have already seen that in the behaviour of policyholders and savers around the world, who choose to allocate an increasing proportion of their savings and assets to companies whose future they consider safe.

There will always be questions over what operating restrictions should apply to a financial institution that has taken state support, but I am confident that our ability to have managed our way through this crisis through our own conservatism is a reputational advantage for us in the marketplace and enhances our licence to operate as a group.

## Life insurers in competition

**Oliver Wyman** **Still on the crisis, how much would you put the limited impact on European insurers down to their good risk management, as opposed to that this just wasn't 'their crisis'? Are there lessons the industry should learn from the crisis?**

Tidjane Thiam As you note, insurers are very different from banks. Insurance has in many ways been a source of stability in the financial crisis. Insurers have matched assets and liabilities, do not give out credit, are structurally long in terms of liquidity and do not depend on markets for their short term funding needs. Insurers are much better able than banks to hold assets to maturity without forced selling, we are long-term holders, not traders.

It is clear that insurers have also learnt much from past experiences, and the importance of a conservative financial approach, with active risk and capital management has been at the heart of our response to these difficult conditions. The one overriding lesson for any financial services business from this crisis, is to put risk management at the heart of decision making.

**Oliver Wyman** **What do you see as the crucial features of winning insurers over the next few years?**

Tidjane Thiam In the current environment I believe those insurers that have taken a prudent approach will benefit most: that is to say by balancing new business with cash generation and capital conservation. In addition, the insurers who have a strong position in some key geographies may be able to create significant value.

**Oliver Wyman** **Solvency 2 is now just around the corner, and there are already some large numbers being thrown around on the potential impact on the industry's required capitalisation. Looking forward to where we might end up, do you see Solvency 2 as largely positive or negative for the industry as a whole, and for the major players in particular?**

Tidjane Thiam Prudential is broadly supportive of the development of a risk-based economic framework for insurers. Solvency II is an important European initiative with far-reaching consequences for the insurance sector. These consequences can be positive as well as negative, depending on how Solvency II is implemented.

Ultimately, we want to see transparent, flexible solutions that deliver benefits for consumers and avoid anything which damages the UK or European pension market. There are a few areas of concern – particularly in relation to annuities . We are working with European industry partners and supervisors to resolve these. Proposals are still at an early stage, so there is a lot of both high level and detailed discussion still to come.

## Life insurance management

**Oliver Wyman** **One of the hot debates in the industry right now is the extent to which insurers should run themselves as a global business with a strong group centre, as opposed to a federation of independent local businesses with a very light-touch centre. At Aviva and Prudential you have experienced two different approaches to group management: what do you see as the right approach for a major insurer today?**

Tidjane Thiam I am a strong believer in giving those closest to the customers on the ground the capability and support to take the decisions they need to. We have implemented a federal operating model at Prudential, and I think that it works well. However this does not mean that we do not have a strong Group centre but rather that we are selective about where the Centre gets involved. The work of our Group centre is critical to the success of each of our businesses on the ground, and is key to driving long-term sustainable returns for our shareholders, based on a well-balanced portfolio of risk and investment.

**Oliver Wyman** **Insurers are often criticised by investors for their disclosure and the apparent complexity of their business models and financials. Some say the answer is greater disclosure, market-consistent embedded value, and the like. Others go the other way, arguing for a simplified approach focused on cashflow and operating earnings, and perhaps even moving away from Embedded Value altogether. Where do you stand on this debate?**

Tidjane Thiam This is a fundamental issue for life insurers given the long term nature of business. I am personally committed to improving not just disclosure, but the investment community's understanding of our company. That does not simply mean more disclosure, but it means providing better disclosure which explains how we measure and run the business.

My approach has been to explain that we run the business by keeping an eye on three metrics: IFRS, EEV and Cash. Over time, we expect to see all of these moving together. We have worked hard to improve the quality of our disclosures on all three metrics and so far our efforts have attracted supportive comments from investors and analysts

## About you

**Oliver Wyman** **You are the first Francophone to run what in many ways is an archetypical British institution. Will you change it, or will it change you?**

Tidjane Thiam I am deeply privileged to be the CEO of Prudential. Its history and heritage are a tremendously important part of the company, and an inspiration to those of us lucky enough to be working in it today. My predecessor Mark Tucker has been an excellent leader for Prudential. My goal is simply to leave it in even better shape than when I joined, and to enjoy working with my colleagues in the meantime. I'm sure I will change some things, but I am also sure that it will change me – the company's 20th & 21st century British art collection has already opened my eyes to a whole world of art that I was not familiar with before!

**Oliver Wyman** **We assume that like most Arsenal fans your heart rules your head so you are still able to ignore the lack of trophies from Ashburton Grove (it doesn't trip off the tongue like Highbury does it?). But what would you do to stop the rot?**

Tidjane Thiam Tempting as it is, I will not try to give any advice to Arsene Wenger. It is important to know one's limitations. My unconditional passion for the sport is unfortunately no qualification to lecture someone who has got such a distinguished track record. I can only hope as a fan that over time, Arsenal's results will continue to improve. The life of a fan can sometimes be difficult but it is also a lesson in humility, which ultimately one of the best things one can get out of football.

**Oliver Wyman** **And finally Tidjane, thank you again for speaking to us today.**

Tidjane Thiam My pleasure.