ISSUED 01 September 2023

PROVIDER SECTOR

Pru

FINANCIAL STRENGTH ASSESSMENT

Analysis by AKG Financial Analytics Ltd
Accessible • Comparative • Independent

ABOUT THIS FINANCIAL STRENGTH ASSESSMENT

This AKG report and the analysis and ratings contained within it provide assessment of financial strength and associated considerations. Financial Strength is focused on the ability of a company to deliver ongoing operational capability in the interest of its customers and in line with their fairly held expectations. AKG's perspective in the assessment of financial strength is wholly that of a customer of a product or service. From that foundation, this analysis is specifically designed to inform financial advisers and assist in their required understanding of a company's operational financial strength.

Given the underlying customer perspective, the financial strength of companies needs to be focused at an operational level (i.e. the elements and functions of an organisation which operate to specifically deliver and manage a proposition or service to the customer), specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met. This contrasts to credit rating, which will be undertaken at group or parent company level where investment or debt placement etc. is made.

Further details on how analysis is undertaken is provided at the end of this report and may also be obtained from AKG.

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CONTACT INFORMATION

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Rating & Assessment Commentary

RATINGS

Overall Financial Strength

AKG A
FINANCIAL STRENGTH RATED
PROVIDER SECTOR **SUPERIOR**
PRUDENTIAL ASSURANCE COMPANY LTD

AKG A
FINANCIAL STRENGTH RATED
PROVIDER SECTOR **SUPERIOR**
PRUDENTIAL PENSIONS LTD

Additional Financial Strength and Supporting Ratings

	Non Profit Financial Strength	Unit Linked Financial Strength	With Profits Financial Strength	Service	Image & Strategy	Business Performance
Prudential Assurance Company Ltd	★★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★★
Prudential Pensions Ltd	▣	★★★★★	▣	★★★★	★★★★	★★★★

SUMMARY

- M&G plc (M&G) was formed, initially as M&G Prudential plc, in 2017 through the merger of Prudential plc's UK and Europe savings and insurance operation and M&G Investments, its wholly-owned international investment manager
- In October 2019, M&G completed its demerger from Prudential plc and was listed on the London Stock Exchange
- Whilst the corporate change in terms of de-merger from the wider Group but merger with the asset management arm has been significant, the effect on proposition and touch within the UK has been much less
- Evolution, particularly driven by digital transformation and simplification of legacy systems, including specifically those within the heritage component, is now underway and is a key potential catalyst for further significant growth opportunities for the newly focused business
- With profits focus remains a unique selling point and Prudential Assurance Company Ltd (PAC) has the largest with profits portfolio in the UK and a market leading with profits proposition
- 1 January 2019 saw the Group consolidate all of its long-term business written in Europe (excluding the UK) into Prudential International Assurance plc (PIA)
- M&G acquired Ascentric, rebranded as M&G Wealth, in September 2020, bringing with it platform capabilities
- May 2021 saw the commencement of the roll out of the new brand, Pru
- M&G continues to expand the business with recent investments in Continuum, Sandringham, TCF Investments, Moneyfarm and responsibility
- October 2022 saw the appointment of Andrea Rossi as Group Chief Executive replacing John Foley, with Kathryn McLeland having joined as Chief Financial Officer in May 2022
- The full range of PruFunds were made available on the M&G Wealth Platform in May 2023
- Clive Bolton and Caroline Connellan were appointed as Chief Executive Officers of M&G Life Insurance and M&G Wealth respectively in September 2023
- M&G's shareholder Solvency II coverage ratio reduced to 205% as at 31 December 2022 [2021: 218%]

COMMENTARY

Financial Strength Ratings

M&G plc met its three-year total cumulative capital generation target of £2.2bn to the end of 2022 in 2021 and announced a new target to deliver £2.5bn of cumulative operating capital generation by 2024, with £821m generated in 2022.

M&G continued to deploy its capital to expand the business with an aggregate investment of £275m in 2022 in respect of investments in Sandringham, TCF Investments, Moneyfarm and responsAbility.

In addition to the declaration of a second interim dividend for 2021 of £311m paid in April 2022, M&G plc announced its intention to return £500m to shareholders via a share buy-back programme, which completed in October 2022.

Subsequent to 31 December 2022, the Board declared a second interim dividend for 2022 of £310m, which was paid in April 2023

M&G plc's Solvency II surplus reduced to £4.8bn as at 31 December 2022 [2021: £6.2bn], Own Funds reduced by £2.0bn, driven by negative own funds capital generation of £989m [2021: positive £1,172m] combined with a deduction of £465m [2021: £466m] relating to dividends paid in the year, a reduction of £503m as a result of the share buy-back, and a reduction of around £200m [2021: £32m] from other capital movements (primarily the acquisitions of Sandringham, TCF, and responsAbility). However, market movements also reduced the Solvency Capital Requirement, with the result that the shareholder Solvency II ratio remained healthy but reduced at 205% [2021: 218%].

The regulatory Solvency II coverage ratio for the Group, which combines the shareholder position and the With-Profits Fund, but excludes all surplus within the With-Profits Fund, was 168% [2021: 168%].

Prudential Assurance Company Ltd

As one of the UK's largest and strongest life companies, PAC continues to show significant resilience in the wake of challenging economic, legislative and regulatory conditions. It has retained focus and increased its market share, whilst continuing to demonstrate its appetite for key segments of the UK market, specifically the Pre- and Post-Retirement space.

At 31 December 2022, PAC had Own Funds of £9.6bn [2021: £12.2bn]. With an SCR of £6.3bn [2021: £8.3bn], there was an increased SCR coverage ratio of 154% [2021: 147%].

Additionally, and of most significance, is the demerger which, whilst not significantly impacting upon solvency, positions the company as a more important component, albeit in a smaller but more focused Group. Prudential plc's strategy has evolved and, whilst resisted for some time, the demerger was logical in view of the respective different levels of maturity of the businesses. Recent acquisitions by M&G, in particular Ascentric, Sandringham and Continuum, are positive developments and bring with it opportunities for PAC to widen its offering and distribution, in particular of PruFund.

PAC also has the ability to call down support under a Parental Support Agreement with M&G plc under certain defined circumstances, which provides additional solvency protection. While it is considered unlikely that such support will be required, the arrangements are intended to provide additional comfort to PAC and its policyholders.

PAC is one of a handful of companies that remain highly committed to with profits and it is dominant in this market in the UK. It has the largest with profits portfolio in the UK, and it continues to write new UK with profits business in volumes that dwarf all others in the market. The inherent strength of its with profits fund remains apparent. PAC's With-Profits Fund reported a Solvency II coverage ratio of 364% [2021: 302%]. The distribution of excess surplus to policyholders reduced with-profits surplus by £1.0bn, with market movements contributing to a further reduction in surplus over the period. Both of these items reduced solvency capital requirements. In particular, the increase in yields and fall in equity assets reduced exposure to market and longevity risks, resulting in an overall increase in the solvency ratio despite the fall in surplus. The run-off of capital requirements also contributed to the increase in the ratio.

Prudential Pensions Ltd
Whilst smaller in size than its immediate parent, PAC, Prudential Pensions Ltd (PPL) is an important component of the UK operation.

The volatility associated with COVID-19 and the deterioration in global market conditions had impacted on PPL's solvency position, which resulted in a reduction in its SCR coverage ratio from 182% as at 31 December 2019 to 171% as at 31 December 2020. The SCR coverage ratio, which was 173% as at 31 December 2021, continues to be managed in line with the company's risk appetite and limits as events unfold. It increased to 231% as at 31 December 2022.

AKG would expect the company to receive full parental support should this prove necessary. Indeed, it can call down up to £15m under a Capital Support Agreement provided by PAC if its SCR coverage ratio or Economic Capital Requirement ratio fall below 105%.

Following the absorption of the four other UK life subsidiaries into PAC in recent years, there must be a strong possibility that the business of PPL will also be transferred into PAC in the near future.

Service Rating
2008 saw the largest life and pensions outsourcing deal ever signed in the UK. Under the deal Capita provided customer servicing, policy administration, new business processing, claims activity and related IT support services to Prudential, the main service areas being based in Craigforth, Reading, Dublin and Mumbai.

Alongside this, PAC has implemented a process to continually improve the service provided to advisers and clients. It makes use of Six Sigma process architects amongst other resources and techniques in driving this. As a result independent research provided to PAC indicated that service satisfaction, had been trending up to a good position.

However, serious administrative pressures and issues arose with the introduction of the Prudential Retirement Account, serviced in-house, which saw higher volumes than anticipated. These issues were resolved in 2018.

In January 2018, the company announced a new partnership with Tata Consultancy Services (TCS) to enhance its service for UK savings and investment customers. 2019 saw the company continue to deepen this strategic outsourcing relationship. Over 5.8 million life and pensions contracts have moved to Diligenta, the FCA-regulated subsidiary of TCS. This involved the transfer of 2,500 people, including 650 employees from Prudential.

Whilst generally performing well, Prudential has fluctuated in external service awards over recent years, receiving 4 and 5 star awards in the 2021 and 2022 Financial Adviser Service Awards. Additionally in 2022, the M&G Wealth Platform received 5 stars and M&G plc was named as company of the year.

Also in common with many large life company peers, the business faced operational challenges in shifting certain aspects of its customer and adviser service delivery to different (remote) ways of working in the early days of the COVID-19 pandemic.

PAC reported continued progress on its transformation programme to improve customer experiences and outcomes, support growth, boost efficiencies and further improve stability. This involves modernising the business so that it is fit for the digital era, through significant investment in new administration systems and digitalisation. However, due to the scale and complexity of these changes, some policyholders experienced service difficulties in 2021. PAC acknowledges that the level of service provided in these cases was below the standards it aims to deliver and has made significant investment to resolve these problems.

PAC reports that overall service has since improved across all areas of its Heritage business and that its client Net Promoter Score has improved from +9 in December 2021 to +14 in January 2023.

Image & Strategy Rating

May 2021 saw the commencement of the roll out of the new brand, Pru, replacing Prudential.

Pru's strategy is highly focused in terms of specifically identified target product sectors for its UK operation. This had been a part of a worldwide operation, but has transitioned to a narrower positioning post the demerger, which is now concentrated on the UK and Europe. In the UK, Pru's operations are structured to meet the needs of retail life and pensions customers. The Group now believes that it can deliver an acceleration of current UK initiatives in specific opportunity sets, through this structurally narrowed focus.

In Europe, the priority is to leverage existing local presence and relationships with global banks to extend distribution reach, in particular, to distribute with profits outside the UK. The product, Future+, was made available for wholesale distribution through the first third party distributor in early 2022. To date progress has been slow, with the inherent lumpiness of such business being a factor.

The emphasis is on higher margin products. In the retail life and pensions market the Group had concentrated on annuities. Post the introduction of Solvency II, however, and the introduction of Pension Freedoms, Pru has withdrawn from the annuity market, other than a few selected bulk annuity transactions a year. In line with its intention to become a lower cost digital organisation, Pru has further developed its offering with a significant investment in technology/digital enablement to deliver more at-retirement options, including low risk multi-asset products, which utilise the Group's experience in asset allocation. There has been a renewed emphasis on with profits in recent years and this strategy has been successful in delivering a profitable differentiated market position and new business flow, with the full PruFund range now available on Platform.

Pru's UK life operation remains well placed for future growth in its chosen segments, based on its financial strength, its brand and its diversified and balanced distribution model. However, in the short to medium term, it has required adjustment to a new landscape as presented by the changes created by flexibility in annuitisation, the loss of at least a large element of very profitable internal vesting annuities, and new product/advice and guidance solutions.

The added presence of the M&G Wealth Platform brings further opportunities, in particular with regards PruFund. On acquisition, the Platform brought an IFA digital wrap and wealth management platform, £15.5bn of assets under administration, and relationships with 1,500 advisers representing 90,000 individual customers. The M&G Wealth division, with assets under management and administration (AuMA) totalling £83.4bn as at 31 December 2022 [2021: £84.2bn], was created in September 2020 and now comprises the Platform business, M&G Wealth Investments and M&G Wealth Advice. M&G Wealth Advice has brought together Prudential Financial Planning and The Advice Partnership.

The acquisition of Sandringham has increased M&G's UK adviser base from around 250 to 440, itself bringing further opportunities for PAC.

In September 2019, the FCA announced a fine for Prudential of £23.9m for failures relating to non-advised sales, arising from the Thematic Review of Annuities Sales Practices. The review, which affected around 35,000 customers, is now complete with compensation paid.

Business Performance Rating

PAC's adjusted operating profit before tax was £548m in 2022 [2021: £641m]. There was an increased non-operating loss of £2,409m [2021: £566m]. Overall, therefore, PAC's UK GAAP loss before tax was £1,861m [2021: £75m profit].

PPL's loss before tax increased £1.0m in 2021 to £2.6m in 2022.

In 2022, PruFund's assets under management (AuM) remained steady at £58.3bn [2021: £58.4bn], with net client inflows of £0.7bn [2021: £1.4bn outflow] being offset by negative market and other movements of £0.8bn [2021: £4.3bn].

Other AuMA decreased to £94bn [2021: £118bn]. These books are closed to new customers and hence are expected to continue to see net outflows over time. Moreover, market related effects were negative in 2022, primarily reflecting the significant increases in interest rates.

At M&G Group level, 2022 saw negative total capital generation of £397m [2021: £1,822m positive], reflecting the swing in market movements compared with overall positive market movements over 2021.

M&G also reported continued progress on its five-year merger and transformation programme. The Group expects to 'improve customer experience, strengthen the control environment and improve the efficiency and structure of our cost base, to create a platform for scalable growth' and is targeting £200m of cost savings gross of inflation by the end of 2025.

Group adjusted operating profit reduced by 27% to £529m in 2022 [2021: £721m], driven mainly by a fall in the annuity margin due to the impact from rising yields; an increase in expenses in the Asset Management business; and negative foreign exchange movements on the USD subordinated debt within the Group's Corporate Centre. These were partly offset by an increase in the with profits shareholder transfer.

AuMA reduced by 8% to £342bn [2021: £370bn], predominantly driven by adverse market movements, partly offset by the inclusion of AuMA from the acquisitions in the year. Within this, Asset Management, including Retail and Institutional business accounted for £154.2bn [2021: £156.7bn] and Retail and Savings (predominantly the Group's Wealth and Heritage business) £186.4bn [2021: £211.1bn]. In addition, there were £1.4bn of corporate assets [2021: £2.2bn].

Group & Parental Context

BACKGROUND

Prudential plc was an International Financial Services Group with significant operations in Asia, the US and the UK, operating through three main business units: Prudential Corporation Asia, Jackson National Life Insurance Co and M&G. M&G was formed in August 2017, initially as M&G Prudential, following the combination of Prudential UK (life and pensions in the UK and across Europe) and M&G Investments (the Group's UK and European fund manager, acquired in 1999).

Prudential announced its intention to demerge M&G from Prudential plc, resulting in two separately listed companies, both headquartered and listed in London. In order to formalise the restructuring, M&G plc was formed in July 2018, with M&G Corporate Holdings Ltd established as a subsidiary in September 2018. In November 2018, M&G acquired M&G Group Ltd, PAC, Prudential Financial Services Ltd and Prudential Property Services Ltd.

In December 2018, PAC sold its Hong Kong subsidiaries to a direct subsidiary of Prudential plc. December 2018 also saw M&G Corporate Holdings Ltd acquire Prudential Portfolio Management Group Ltd. The demerger completed in October 2019.

M&G plc is now an independent UK & Europe savings and investment provider. The Group is comprised of two main subsidiaries, which own the majority of the Group's regulated entities: PAC and M&G Group Ltd.

Prudential plc is an International Insurance Group focused on high-growth opportunities in Asia and Africa, having completed the demerger of Jackson Financial Inc. in September 2021.

In January 2018, Pru announced that the administration of over 4 million life and pensions contracts (since extended to 5.8 million) would move from Capita (at this point its business partner for the previous ten years) to Diligenta, a subsidiary of Tata Consultancy Services Ltd (TCS). The transfer of a further 394,000 corporate and individual pensions was completed in 2020 in addition to 433,000 customers migrated in 2019 on to the strategic administration platform BaNCS managed by Diligenta, TCS also assumed responsibility for the operation of some of PAC's internal IT infrastructure.

In March 2018, Prudential announced the sale of £12bn of its UK annuity portfolio to Rothesay Life, initially by reassurance, a transaction which was estimated to give rise to a pre-tax loss of £513m in 2018 and was expected to complete in 2019. However, in August 2019 this transfer was rejected by the High Court, The Court of Appeal overturned the original decision in December 2020 and a second hearing in November 2021 approved the transfer which took place in December 2021.

Offshore business is marketed through PIA delivering niche proposition variants to specific markets, including the UK, based on the fundamental strength of the wider organisation and its PruFund capability and USP. In order to allow more efficient operation and to simplify the management of its long-term business across Europe, on 1 January 2019, Prudential consolidated all of its long-term business written in Europe (excluding the UK) into PIA. Although not a primary motivation, the transfer has been structured to ensure that PAC's policies written through establishments in Europe (excluding the UK) can continue lawfully to be administered and serviced post-Brexit. This saw a number of relatively small transfers of business from European countries (net assets of £15m), including the Polish business as well as establishment work to ensure continued provision of offshore bond business for UK customers. The with profits business is reinsured back to PAC.

M&G acquired Wrap IFA Services Ltd, an intermediate holding company, and all its subsidiaries including Investment Funds Direct Limited, the provider of the Ascentric platform (rebranded as M&G Wealth Platform), from Royal London in September 2020.

In September 2020, the Group brought together established existing businesses to form a new wealth management division. M&G Wealth now comprised of M&G Wealth Platform, M&G Investments and M&G Wealth Advice (which has brought together Prudential Financial Planning and The Advice Partnership).

M&G now operates under five brands:

- Pru - a provider of long-term savings in the UK and Europe
- M&G Wealth - a wealth management business
- M&G Investments - an international asset manager
- M&G Real Estate - a global real estate business
- Infracapital - a European infrastructure investment business

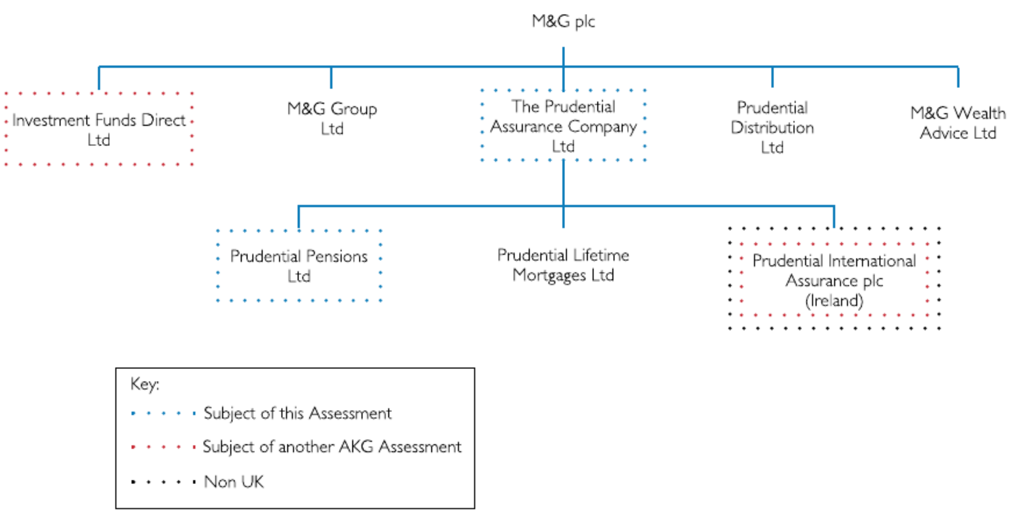
2021 saw the Group's operating segments revised as a result of a change in management structure. The previous operating segments, 'Savings and Asset Management' and 'Heritage' have been replaced by 'Asset Management' and 'Retail and Savings'.

On 6 January 2022, M&G, via M&G Group Regulated Entity Holding Company Ltd acquired a 100% holding in Clear View Assured Ltd, the parent company of Sandringham Financial Partners Ltd (Sandringham), a provider of independent financial advice. In January 2022, M&G announced that it was partnering with Moneyfarm, a digital investment specialist, to provide direct investment services to UK consumers and is investing a minority stake in MFM Holding Limited. In February 2022, M&G acquired the investment manager TCF Fund Managers LLP (renamed as M&G Wealth Investments LLP in September 2022) to become a provider of model portfolio services. On 3 May 2022, M&G acquired responsAbility Investments AG (responsAbility), an impact investment house focused on private debt and private equity across emerging markets. In March 2023, M&G plc acquired a 49.9% holding in My Continuum Financial Ltd (MCFL), holding company of Continuum (Financial Services) LLP (CFSL) and My Continuum Wealth (MCW), with an agreement that allows the acquisition of the remaining holding in MCFL over the following 2 years.

October 2022 saw the appointment of Andrea Rossi as Group Chief Executive replacing John Foley, with Kathryn McLeland having joined as Chief Financial Officer in May 2022.

From 4 November 2021, M&G has been granted approval under a waiver from PRA to prepare a single Group SFCR. The Group SFCR includes the required information for M&G plc, as well as its UK insurance subsidiaries including PAC and PPL. For the year ended 31 December 2020, prior to the approval of the waiver, M&G plc and each individual insurance subsidiary prepared their own SFCR.

GROUP STRUCTURE (SIMPLIFIED)



Company Analysis: Prudential Assurance Company Ltd

BASIC INFORMATION

Company Type
Composite Insurer

Ownership & Control
M&G plc

Year Established
1848

Country of Registration
UK

Head Office
10 Fenchurch Avenue, London, EC3M 5AG

Contact
www.mandg.com/pru/customer/en-gb/existing-customers/contact-us

Key Personnel

Role	Name
Chair, M&G	E Braham
Chief Executive Officer, M&G	P A Rossi
Chief Finance Officer, M&G	K McLeland
Chief Executive, M&G Life Insurance	C G Bolton
Chief Risk Officer	G M Barton
Chief Actuary	J R Hughes
With Profits Actuary	S R Gracie, Zenith Actuarial Ltd

Company Background
The company began life in 1848 as the Prudential Mutual Assurance Investment and Loan Association, becoming the Prudential Assurance Company Ltd (PAC) in 1867, and for many years it was the UK's largest life company.

Originally a composite office with a large home service operation, the company stopped writing IB business in 1995, and in 2001 closed its direct sales force and exited from general business in the UK by selling its book to Churchill (a small run-off liability still exists). At the same time, it dropped the Scottish Amicable brand (it had acquired Scottish Amicable in 1997) and all remaining Scottish Amicable business was transferred into Prudential at the end of 2002. In 2008, PAC decided not to proceed with a reattribution of its Inherited Estate.

The Hong Kong branch was transferred to two new locally incorporated Hong Kong subsidiary companies on 1 January 2014, one life and one general. In preparation for the demerger, ownership of these companies was transferred to Prudential Corporation Asia Ltd in December 2018.

All long-term business from four previous UK life subsidiaries has now been transferred into PAC: PruHolborn and Pru (AN) (2010), Prudential Annuities Ltd (2014), and Prudential Retirement Income Ltd (PRIL) (October 2016).

PRIL was liquidated in September 2019, resulting in a return of capital of £100m to PAC. The return of capital was settled through the cancellation of a £100m loan PRIL had granted to PAC.

PAC also has a subsidiary in Ireland, PIA, which was identified by the Group as having a key part to play in facilitating changes required to branch and subsidiary structures needed for managing existing business and further new business developments within Europe, under potential new arrangements. Consequently, on 1 January 2019, all of the long-term business of PAC written in Poland, France and Malta, together with policies written in Germany and Ireland that were transferred to PAC from the Equitable Life Assurance Society (ELAS) in 2007, were transferred to PIA. The total policyholder liabilities transferred amounted to around £74m, as at 31 December 2017, excluding the negative liabilities for Poland. With the exception of the PAC Poland business all of the transferred blocks of business are now closed to new business. A Polish branch of PIA was established in August 2018 in anticipation of the transfer and to provide a new business capability with effect from 1 January 2019. The with profits business is reinsured back to PAC. In March 2022, PAC contributed £25m [June 2021: £40m] of capital to PIA, to provide it with increased capital flexibility.

PAC consists of the With-Profits Fund and the Shareholder business. The With-Profits Fund is the largest of its kind in the UK. It is made up of two ring-fenced with-profits sub-funds: the With-Profits Sub-Fund (WPSF) and the Defined Charge Participating Sub-Fund. Previously, the With-Profits Fund included the Scottish Amicable Insurance Fund (SAIF). In April 2021, SAIF merged into the WPSF.

OPERATIONS

Governance System and Structure

The M&G Group Board has responsibility for the oversight, governance, direction, long-term sustainability and success of the business and affairs of the Group and is responsible to shareholders for creating and delivering sustainable shareholder value. Key subsidiaries have their own separate Boards recognising their obligation to take decisions independently in the interest of their customers and clients, as well as to meet relevant legal and governance responsibilities.

The PAC board has responsibility for the oversight, governance, direction, long-term sustainability and success of PAC and is authorised to exercise all the powers of PAC subject to complying with the Group Governance Framework (GGF).

The GGF defines the Group's approach to governance and internal controls to ensure the business meets internal and external requirements and standards. It also sets out the respective roles and responsibilities between M&G plc and its subsidiaries, allowing for the management of potential conflicts of interest, as well as the required interactions and two way flow of information and escalation of issues.

The Group's governance is designed to support a clear understanding and delivery of its strategy. Compliance with the GGF, including the Risk Management Framework (RMF), is attested to annually.

M&G is committed to embedding sustainability across everything it does. The Group is committed to achieving net zero carbon emissions as a business by 2030 and as an investor by 2050.

Risk Management

The Group states that it has a comprehensive approach to identifying, assessing, managing and reporting risks (the risk management cycle), supported by an embedded risk culture and strong risk governance. This is set out in the RMF which, supported by a suite of risk policies and standards, provides a disciplined and structured process for the taking and management of risk. The RMF is designed to manage risk within agreed appetite levels, which are aligned to delivering the Group strategy for shareholders and customers.

The Group's risk governance is based on a Three Lines of Defence model. First line business areas identify and manage risks and are overseen by the second line Risk and Compliance function (which includes the Actuarial function). The second line Risk and Compliance function is structurally independent of the first line, providing risk oversight, advice and challenge, as well as compliance monitoring and assurance. Third line Internal Audit is empowered by the Audit Committees to audit the design and effectiveness of internal controls, including the risk management system.

During 2021 the Group completed a review of the RMF and Risk function to ensure that both were fit for purpose and positioned well for the future. This review identified no fundamental issues and showed a number of strengths and recent positive enhancements in the Group's approach to risk management as well as opportunities for enhancement. Following this, a plan of work was developed with the majority of actions now completed to 'implement a further step change in risk understanding, awareness and accountability'.

Further to this, a review of the Compliance Function and activities was completed in 2022 with external support. A Compliance transformation programme has been established to address findings from the review with work structured around three key outcomes linked to: compliance culture across the organisation; the scope, purpose of positioning of Compliance across the three lines of defence; and functional capability.

The most significant risks for M&G plc and PAC are market risks (primarily credit risk and equity risk) and longevity risk.

Administration
2008 saw the largest life and pensions outsourcing deal ever signed in the UK. Under the deal Capita provided customer servicing, policy administration, new business processing, claims activity and related IT support services to Prudential, the main service areas being based in Craigforth, Reading, Dublin and Mumbai.

Alongside this, the Group has implemented a process to continually improve the service provided to advisers and clients. It makes use of Six Sigma process architects amongst other resources and techniques in driving this. As a result independent research provided to the company indicates that service satisfaction, which has been trending up, remains very high.

The Group's adviser extranet has been designed to make it easy for Financial Advisers to conduct business online, including: pre-sale illustrations; submission of business; access to policy valuations and transaction history; and the ability to switch the investments within a tax wrapper.

The Group also supports the major portals and offers data pre-population and/or real time transactions via Origo Standard XML messaging. Significant investment in the company's platform capability has also been made, facilitating its Retirement Account.

In January 2018, M&G announced 'a major investment programme in the new combined business's infrastructure to improve customer service, accelerate product development, and widen customer choice. A substantial investment will be made over the next five years in transforming the business's operations, including building the digital distribution capability'.

The MyPru online servicing portal, which allows customers to 'enjoy ease and convenience of accessing policies online, and dramatically reducing the time it takes to withdraw money from bonds are just two of the ways that a digitisation of the business is making customers' lives easier'.

2018 saw administration of over 5.8 million life and pensions contracts move from Capita (Pru's business partner for the previous 15 years) to Diligenta, a subsidiary of TCS, in a 10 year partnership. This involved the transfer of 2,500 people, including 650 Prudential employees. TCS has also assumed responsibility for the operation of some of Prudential's internal IT infrastructure.

Benchmarks
Pru has been awarded 5 Stars by Defaqto for its Retirement Account (Personal Pension category) and for its Onshore Portfolio Bond (Onshore Bond category).

In the 2018 Investment, Life & Pensions Moneyfacts Awards Pru also won the Best Investment Bond Provider for the eighth year running, being highly commended in 2019, 2020 and 2021 and Best Income Drawdown Provider in 2017, 2018 and 2019. being highly commended in 2020. Pru was highly commended in the Best Personal Pension Provider category in 2021.

Pru has worked hard to achieve greater recognition and its service and perception had improved in recent years. In the 2011 Financial Adviser Service Awards it regained a 5 star rating in Life and Pensions with a 5 star rating for Investment Service awarded in 2009. 5 stars had been retained until 2020 when Pru received 3 stars in both categories. In 2021 and 2022 Pru was awarded 5 stars for Investments and 4 stars in the renamed Pensions and Protection category. Pru was named most improved company for Investment service in the 2021 awards.

Outsourcing

PAC uses outsource and third party supply providers to allow it to focus on its core business strengths, reduce costs and manage its delivery risks.

Over recent years the PAC has increasingly adopted an outsourcing model for its business, including a growing amount of offshoring (to India) and this approach and its operation is now relatively mature. The company now has material external and intra-group outsource providers.

The intra-group outsourcers provide IT infrastructure support services and investment strategy and portfolio management services located in the UK.

In January 2018, PAC announced a 10-year partnership with Tata Consultancy Services (TCS). This includes the administration of over 5.8m life and pensions contracts being moved from Capita to Diligenta Ltd, the FCA-regulated subsidiary of TCS, on 1 August 2018, with a contractual commitment of full transfer by 2022.

About 1,100 Capita roles across a number of UK sites were expected to be transferred under the TUPE arrangements to Diligenta. A further 700 roles in India also moved from Capita to TCS.

TCS has also assumed responsibility for the operation of some of PAC's internal IT infrastructure with the aim of enabling the IT operations function to deliver greater flexibility in the provision of services to the businesses within the Group and enabling PAC to focus efficiently on its digital transformation. Further services related to PAC's annuities business, transferred from PAC to Diligenta on 1 October 2018. Responsibility for the operation of some of PAC's IT infrastructure transferred from PAC to Diligenta on 1 May 2018.

During 2019, PAC continued to deepen its strategic outsourcing relationship with Diligenta for the provision of legacy policy administration services and with Tata Consultancy Services for IT hosting and infrastructure management services, whilst also entering into a new agreement with HSBC for the provision of fund accounting, custody and regulatory reporting for the company's life funds.

About 180 full-time roles in London, Reading and Craigforth transferred under the TUPE arrangements from M&G Prudential to TCS.

PAC's other external outsourcing arrangements include RR Donnelly, who now manage its UK Document Management infrastructure, Capita Life & Pensions, who also have responsibility for administration of its offshore business out of Dublin, and Hazell Carr, who administer the majority of its Defined Benefits pension scheme business.

As a consequence of the demerger, certain key services, including those relating to data centres, are also now provided via Prudential plc to the Group under the terms of a Transitional Services Agreement. Intra-group outsourcers provide various services including fund management and portfolio management services.

A Third Party Risk Management Policy is used to manage third party risk across the Group. The approach set out in the policy addresses third party risks through the framework of a risk management lifecycle, including requirements to:

- Consistently identify and categorise areas of third party risks
- Incorporate third party arrangements into strategic and operational business planning
- Consistently assess third party risks in line with applicable policies, standards and procedures
- Utilise scenario analysis to assess the impact and consequences of third party failures on operational resilience and continuing viability, with risk assessments linking the potential impact of risks to customer outcomes
- Monitor the third party risk profile relative to risk appetite
- Disclose applicable third party risks in financial reporting and to other relevant stakeholders
- Regularly inform relevant boards and risk committees of the aggregated third party risk profile, policy compliance and associated regulatory requirements

STRATEGY

Market Positioning

M&G as a standalone group intends to 'drive its transformation into a more capital-efficient customer-focused business, targeting growing customer demand for comprehensive financial solutions in the retirement and savings markets'.

The Group operates internationally and distributes its products across 26 markets, serving its savings and insurance customers under the Pru/Prudential brand in the UK and Europe, and under the M&G Investments brand for asset management clients globally.

Structurally in September 2020, the establishment of the M&G Wealth Management Division was announced. This now comprises the M&G Wealth Platform, M&G Wealth Investments and M&G Wealth Advice.

PAC is focused on 'maintaining the growth momentum created by the structural changes to retirement provision in the UK and on delivering a growth strategy underpinned by investment in product, service and distribution capabilities to meet the evolving needs of customers'.

Pru distributes life products through four UK channels: Intermediaries (financial advisers, with telephony and sales support via 65 regional sales units), Business to Business (corporate pensions business primarily with consulting actuaries and benefit consultants), Partnerships (arrangements with banks, insurers and other distributors), and Direct to Customer, where there is a growing F2F advice capability through M&G Wealth Advice Ltd (renamed from Prudential Financial Planning Ltd). This latter, direct business, currently further evolving with a mix of employed and self-employed advisers (within a current total of 350) and greater use of digital technology.

Intermediaries are seen as a key component in the distribution strategy. The post RDR environment had seen a contraction in the overall intermediated market with reduced sales of PAC's with profits bonds. However developments that enable the investment proposition in terms of its delivery via external technology (platforms in particular) and wrappers means that it is envisaged that the with profits offering can be extended to more customers and now features in the advice solutions of more advisory firms. The presence of M&G Wealth Platform provides a good underlining of this strategic intention and is itself a practical step in this development.

PAC's product and distribution profile has evolved by increasing the range of product options to mirror the flexibilities of the pensions freedom era. There has been a shift away from a reliance on annuity business to a focus on more flexible bond, ISA, pension and income drawdown products across a range of tax efficient solutions.

PAC launched the Prudential Retirement Account in 2016, an online account based plan, that provides customers with the flexibility to save for their retirement, benefit from an income in retirement and facilitate access to their fund as they save. The Retirement Account allows customers to invest in PruFund, a proposition managed by M&G's Treasury & Investment Office (T&IO), M&G's multi-asset management team.

Enhancements to the Retirement Account were made in 2019, followed by ISA changes to bring a more digital customer experience.

PAC continues to focus on deepening its relationships with intermediaries. An important part of its service offering is the ongoing hands-on support from its regional sales units, technical helpline and business development and consultancy team.

M&G as a standalone group is continuing to drive its transformation into a more capital-efficient and customer-focused business, targeting growing customer demand for comprehensive financial solutions in the retirement and savings markets.

As part of M&G, PAC has the opportunity to offer its customers a wider set of solutions as their needs evolve.

PAC reported that it 'continued to make good progress on its five-year transformation plan', which aims to improve the experience for customers and create business efficiencies, largely through significant investment in new administration systems and digitalisation in order to deliver on the high service expectations arising from advances in digital technology. Notable in 2019 was the transfer of its life assurance system onto the BANCs platform of Diligenta.

PAC's roll out of business in Poland continues to generate sales volumes, with sales now recovering from pandemic impact and 2023 planned volumes over 50% above 2022 numbers in local currency terms. Prudential Poland now has 907 tied agents operating from 20 branches. Prudential's core business in Poland is a regular premium with profits endowment type life insurance product, an individual protected product offering guarantees with growth potential at maturity. Pure protection products are also offered. A new line of business has been launched in 2022, Future+, a PruFund single premium plan (based on Expected Growth Rate and smoothing).

PAC's goal is to give more savers and advisers access to M&G's investment and capital management capabilities, in a wider range of structures and formats. To support customers in a changing environment, PAC's proposition has evolved by widening the range of products and services it offers, including advice and guidance, to mirror the flexibilities of the pensions freedom era. New business has shifted away from the annuity market, to focus on more flexible bond, ISA, pension and income drawdown products across a range of tax efficient solutions through the PruFund range of products.

To support customers in a changing environment, PAC's proposition has evolved by widening the range of products and services it offers, including advice and guidance, to mirror the flexibilities of the pensions freedom era.

2022 saw M&G continue to build its advisory capabilities to offer a better and more cost effective proposition to the UK, including PAC's clients. M&G aims to make financial advice more accessible and, In line with the growth strategy, it is transforming and simplifying operations, and investing in digital capabilities to become more efficient. Through multi-channel advice offering, PAC combines digital journeys with access to human-based advice. PAC also reports continued progress on its transformation programme to improve customer experiences and outcomes, support growth, boost efficiencies and further improve stability.

Proposition

In the UK, PAC offers a range of retail financial products and services, including long term insurance and asset accumulation and retirement income products, retail investments and unit trust products, for use in a post pension freedoms era.

New business has shifted away from the annuity market, to focus on more flexible bond, ISA, pension and income drawdown products across a range of tax efficient solutions through PAC's PruFund range of products.

Pru now concentrates on savings and investment type products, onshore and offshore bonds, and pensions. A 'new-style', more transparent, with profits product was introduced in 2004, the PruFund Investment Plan. PruFund was extended to some other product types during 2008, along with the introduction of the PruSelect range of funds, and further extended in 2015 through an ISA wrapper and through a drawdown product.

September 2016 saw the launch of the Prudential Retirement Account, an online account based plan that provides customers with the flexibility to save for their retirement, provide an income in retirement and with a choice of funds and assets. At its core is PruFund, which consists of 5 risk-rated funds and 25 different asset classes together with a Growth and a Cautious Fund and also offers smoothing.

Development work to broaden out the investment proposition with new multi-asset funds, to complement PruFund was completed at the start of 2019. There are 3 ranges of 5 risk rated funds (passives, actives & PruFund).

The Group's investment proposition offers a range of investment options. At the heart of the Pru approach to Multi-Asset Funds is T&IO, which has replaced Prudential Portfolio Management Group Ltd, and which provides multi-asset class solutions across a wide range of products by leveraging group-wide investment management and risk management expertise. T&IO's core services include strategic asset allocation recommendations between asset classes, tactical overlay and acting as a 'manager of managers'. T&IO managed £152bn as at 31 December 2022 across a range of multi-asset investment solutions, unit linked funds and annuities on behalf of Prudential UK and Europe.

The Group withdrew from the lifetime mortgage/equity release market in November 2009, and, following the introduction of Solvency II, the bulk annuity market in 2016, and thereafter the annuity market entirely, although there are now a few selected bulk annuity transactions each year. PAC states that client research and engagement helps it better align with client needs, and informs the design of products, client journeys and communications. PAC considers that in the UK, structural changes within the UK defined benefit corporate pension fund market, following the fallout from the 'mini' budget in 2022, present opportunity as clients look to de-risk on the path to buyout or self-sufficiency.

Pru states that it continues to support its customers in the Pension Freedoms era by increasing its range of product options offered to mirror the new flexibilities. The focus is on its flexible bond, ISA, pension and income drawdown products.

The largest with profits portfolio in the UK resides in two sub-funds, the With Profits Subfund (WPSF) and the Defined Charge Participating Subfund (DCPSF), which includes the with profits annuities transferred from Equitable in 2007. SAIF was merged into the WPSF in April 2021. Prudential is differentiated amongst large offices by its continued active support of with profits. This includes its highly successful PruFund range of with profits options and use in an increased number of product wrappers. Total AuA for the PruFund range remained steady in 2022 to £58.3bn [2021: £58.4bn].

The performance of PruFund and the underlying £129bn [2021: £143bn] With-Profits Fund was negative. The pre-tax investment return on the WPSF was -1.5% in 2022 [2021: 12.0% positive].

In July 2021, PAC launched PruFund Planet, a people and planet focused version of PruFund - a range of five funds which aims to deliver positive environmental and societal outcomes along with appropriate investment returns.

A stable legacy book, mainly annuities and traditional with-profits policies, leaves PAC and its ultimate parent M&G well placed to weather any short-term market volatility. PAC's Heritage business brings together end-to-end responsibility for the proposition and customer servicing of all legacy books, some of which remain open to top-up investments. In 2022, PAC has continued to focus on improving the quality of customer service and customer outcomes, migrating clients to enhanced policy platforms, with a focus on digitisation. PAC reports an improvement in overall service across all areas of its Heritage business and that client queries are now resolved more easily and quickly. As a result, the client Net Promoter Score has improved from +9 in December 2021 to +14 in January 2023.

Sustainability is stated as being at the forefront of M&G and its subsidiaries strategy. As part of this, M&G has made company-wide commitments to both diversity and inclusion and climate change, including a pledge to reach carbon net zero as a corporate entity by 2030 and to achieve net zero carbon emissions on its total book of assets under management and administration by 2050 - in line with the Paris Agreement. As part of this, M&G plc has committed to phase out thermal coal from its public investment portfolios by 2030 for OECD and EU countries, and by 2040 for developing countries. As part of the M&G Group, PAC shares the same commitments for its investment portfolio, which are now informing the investment policy and asset allocation decisions of PAC's With-Profits Fund and the pension savings and annuity books. In September 2022, M&G announced its first set of interim net zero targets, as part of its membership of the Net Zero Asset Owners Alliance.

Towards the end of 2020, the With-Profits Fund allocated £5bn to a new sustainability-oriented private assets strategy, managed by Catalyst, a global team within M&G which invests in innovative private companies working to create a more sustainable world. By the end of 2022, Catalyst had deployed over £1.6bn of capital, with further committed capital of £835m, including new investments in off-grid solar in Africa, low carbon energy efficient housing, medical diagnostics, and a new investment company supporting science and technology innovations developed at the Universities of Manchester, Leeds and Sheffield. To keep customers informed about these developments, and also more generally how and where their money is put to work, PAC published its first annual With-profits Fund Stewardship report in April 2022, which is available online to all Prudential With-Profits policyholders in the UK.

In Europe, M&G has a memoranda of understanding for the distribution of Future+ (similar to PruFund) with two banking groups in different countries. During Q4 2021, the final regulatory step was completed, allowing PIA to market Future+ into European markets. M&G anticipates strong demand from cautious customers looking for alternatives to low-yielding cash and equivalents. The first investments from these arrangements, with Intesa Sanpaolo Life in Italy, were received in Q1 2022.

KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2022

Assets

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Fixed interest	64,142	61,040	45,030
Equities	34,005	21,302	9,879
Collectives	10,437	10,670	9,946
Property	8,081	8,099	6,877
Linked	7,300	7,210	6,095
Derivatives	5,557	3,179	2,551
Loans and mortgages	18,774	18,596	20,053
Reinsurance recoverables	17,836	6,795	5,481
Cash	2,360	1,382	748
Other	29,138	47,478	57,950
Total Assets	197,628	185,751	164,610

Liabilities

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Technical provisions - non-life	132	128	121
Technical provisions - health (similar to life)	(4)	0	(9)
Technical provisions - life	152,161	141,406	124,780
Technical provisions - linked	13,172	12,848	10,930
Other	11,553	11,431	12,472
Total Liabilities	177,014	165,813	148,294
Excess of assets over liabilities	20,614	19,938	16,316

Total assets reduced by 11% in 2022 to £165bn [2021: £186bn]. Total liabilities also reduced by 11% to £148bn [2021: £166bn], including a provision of £226m [2021: £297m] relating to pension mis-selling.

Over the course of 2022, PAC moved a further £11bn [2021: £21bn] of assets, principally equities, into Authorised Contractual Schemes (ACS), Luxembourg Fond commun de placement (FCP) and UK OEIC funds. This is seeking to 'simplify the investment strategy, achieve lower costs by greater economies of scale, whilst protecting the interests of all groups of policyholders'.

The excess of assets over liabilities reduced to £16.3bn [2021: £19.9bn].

Towards the end of 2020, the With-Profits Fund allocated £5bn to a new sustainability-oriented private assets strategy, managed by Catalyst, a global team within M&G, which invests in private companies working to create a more sustainable world. By the end of 2022, Catalyst had deployed over £1.6bn of capital, with further committed capital of £835m, including new investments in off-grid solar in Africa, low carbon energy efficient housing, medical diagnostics, and a new investment company supporting science and technology innovations developed at the Universities of Manchester, Leeds and Sheffield.

Life & Health SLT Technical Provisions

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Insurance with profit participation	103,894	106,743	98,582
Linked insurance	13,172	12,848	10,930
Other life insurance	40,573	26,865	18,545
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health insurance	(4)	0	(9)
Health reinsurance	0	0	0
Life reinsurance	7,694	7,797	7,653
Total life & health SLT technical provisions	165,329	154,254	135,701

Life Expenses

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Health insurance	2	2	1
Insurance with profit participation	635	571	647
Linked insurance	124	118	121
Other life insurance	146	167	177
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	30	28	100
Other expenses	78	63	16
Total life expenses	1,015	949	1,063

With profits business accounted for 73% [2021: 69%] of technical provisions, reflecting PAC's commitment to this line.

Net operating expenses of £674m [2021: £647m] consist of acquisition costs of £131m [2021: £129m] and administration expenses of £543m [2021: £518m].

Investment expenses and charges of £360m [2021: £328m] were comprised of investment management expenses of £353m [2021: £319m] and interest on bank borrowings of £7m [2021: £9m].

Administration expenditure increased by £25m [2021: £17m] mainly due to increased transformation costs, operating expenses and project costs. The increase in PAC's investment management fees was mainly due to the payment of fees that were incurred in the previous year.

Solvency Capital Requirement (SCR)

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Market risk	8,583	7,251	5,345
Counterparty default risk	394	126	102
Life underwriting risk	3,562	2,916	1,493
Health underwriting risk	0	0	0
Non-life underwriting risk	0	0	0
Diversification	(2,869)	(2,070)	(1,449)
Intangible asset risk	0	0	0
Operational risk	1,413	1,381	1,298
Capital add-ons already set	0	0	0
Other items	(1,081)	(1,307)	(530)
Solvency capital requirement	10,002	8,296	6,258

Eligible Own Funds

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Tier 1 unrestricted	13,613	12,161	9,226
Tier 1 restricted	0	0	0
Tier 2	0	0	0
Tier 3	0	0	392
Eligible own funds to meet SCR	13,613	12,161	9,618
Excess of own funds over SCR	3,611	3,866	3,360
SCR coverage ratio (%)	136.0	146.6	154.0

PAC has approval by the PRA to calculate its SCR based on its internal model. In June 2019 a Major Model Change application was approved covering the credit risk model and the deferred tax model. A further Major Model Change was approved in October 2019 as a result of the demerger of M&G plc from Prudential plc. This covered the reduction in scope of the Internal Model from the then Prudential plc Group to the new M&G plc Group. Another Major Model Change application was approved to use a revised Internal Model for the 31 December 2021 valuation. Changes primarily related to the modelling of credit risk to reflect the different characteristics of the Group's credit risk holdings. The impact of the changes were a £89m increase in PAC's shareholder fund surplus and a £170m reduction in PAC's with-profits fund surplus at that date.

Own funds eligible to cover the solvency capital requirement (SCR) and minimum capital requirement (MCR) were £9.6bn and £9.2bn respectively [2021: £12.2bn, both] and were predominantly Tier 1 unrestricted own funds, although 2022 saw the inclusion of a net deferred tax asset of £392m [2021: nil].

PAC's Solvency II surplus reduced to £3,360m [2021: £3,866m], predominantly due to market conditions, non-market experience variance and the payment of dividends of £500m [2021: £1,550m]. These were partly offset by expected surplus from in-force business, management actions, which mainly related to matching adjustment strategy changes of £87m and the own funds impact of the excess surplus distribution of £43m, beneficial longevity assumption changes and tax changes.

PAC also reports its Solvency II position on a 'shareholder' basis, which recognises both the exposure to the with profits fund by including the present value of future expected shareholder transfers within own funds, and the risk associated with those shareholder transfers within the SCR. This calculation results in the same Solvency II surplus of £3.4bn, but results in a higher SCR of 190% [2021: 187%].

PAC's With-Profits Fund solvency surplus reduced by £1.1bn in 2022 to £6.7bn [2021: £7.8bn]. The distribution of excess surplus to policyholders reduced with-profits surplus by £1.0bn, with market movements contributing to a further reduction in surplus. Both of these items also reduced the SCR to £2.5bn [2021: £3.8bn], in particular, the increase in yields and fall in equity assets reduced exposure to market and longevity risks, resulting in an overall increase in the SCR coverage ratio to 364% [2021: 302%], despite the fall in surplus. The run-off of capital requirements also contributed to the increase in the ratio.

PAC employs the transitional measure for technical provisions and the matching adjustment. If these are excluded, own funds reduce to £8.1bn, whilst the solvency capital requirement increases to £9.5bn, leading to a coverage ratio of 85% [2021: £10.2bn; £12.3bn and 83% respectively].

Gross Life Premiums Written By Line of Business

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Health insurance	15	14	36
Insurance with profit participation	4,756	3,833	5,454
Linked insurance	444	410	344
Other life insurance	247	178	121
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	570	537	811
Total gross life premiums written	6,031	4,972	6,766

Gross Life Premiums Written By Country

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Home country	6,031	4,432	5,953
Country 1	0	463	735
Country 2	0	51	54
Country 3	0	23	22
Country 4	0	2	1
Country 5	0	1	0
Other countries	0	1	0
Total gross life premiums written	6,031	4,972	6,766

Gross written premiums increased by £1,794m, from £4,972m to £6,766m.

The majority of PAC's, and hence M&G's, premiums relate to 'Insurance with profit participation' and principally relate to PruFund business. Inflows into PruFund business increased over 2022, mainly due to the recovery of ISA Premiums, Bonds and Retirement account business.

Profit

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Profit (loss) before taxation	1,311	75	(1,861)
Taxation	(244)	3	448
Profit (loss) after taxation	1,067	78	(1,413)
Other comprehensive income	(50)	16	18
Dividends	(497)	(1,550)	(500)
Retained profit (loss)	520	(1,456)	(1,895)

Life Business Flows

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Net life premiums earned	4,817	3,717	6,067
Net life claims incurred	(10,694)	(11,746)	(12,000)
Net flow of business	(5,877)	(8,029)	(5,932)

PAC's adjusted operating profit before tax reduced by 15% to £548m [2021: £641m], consisting of £354m [2021: £268m] relating to the shareholder transfer and associated hedges from the With-Profits Fund, £227m [2021: £369m] relating to the annuity business and a loss of £33m [2021: £4m profits] on unit-linked business.

There was an increased non-operating loss of £2,409m [2021: £566m], mainly due to losses from short-term fluctuations in investment returns. Overall, therefore, PAC's UK GAAP loss before tax was £1,861m [2021: £75m profit].

Total dividends of £500m were paid [2021: £1,550m]. A final dividend in respect of 2022 of £333m was declared in March 2023, which is not recognised in the Solvency II position at 31 December 2022.

Shareholders' funds reduced to £2,783m [2021: £4,678m]. The decrease of £1,895m consists of dividends paid of £500m and a loss after tax of £1,413m, partially offset by other income of £18m [2021: decrease of £1,456m consisting of dividends paid of £1,550m, partially offset by a profit after tax of £78m and other income of £16m].

With net premiums increasing to £6.1bn [2021: £3.7bn] and net claims increasing to £12.0bn [2021: £11.7bn] there was a reduced net outflow of £5.9bn [2021: £8.0bn].

Company Analysis: Prudential Pensions Ltd

BASIC INFORMATION

Company Type
Life Insurer

Ownership & Control
The company is a wholly owned subsidiary of PAC, which, in turn, is a wholly owned subsidiary of M&G plc

Year Established
1970

Country of Registration
UK

Head Office
10 Fenchurch Avenue, London, EC3M 5AG

Contact
www.mandg.com/pru/customer/en-gb/existing-customers/contact-us

Key Personnel

Role	Name
See Prudential Assurance Company Ltd	

Company Background
Prudential Pensions Ltd (PPL) was established as a subsidiary of PAC in 1970. Its original purpose was to maintain the unit linked funds for PAC's corporate pension customers.

Upon Scottish Amicable's demutualisation and acquisition by Prudential at the end of 1999, the whole of the business of Scottish Amicable Pensions Investments Ltd was transferred into the company.

Nowadays, PPL accepts reinsurance of unit linked corporate pensions business from PAC (reserves of around £3.1bn as at 31 December 2022) and from external parties (reserves of £1.6bn). In addition it sells direct investment-only unit linked business to money purchase group pension schemes (reserves of £2.5bn).

A small block of non-profit pensions annuity business (around £33m) is reinsured to PAC.

OPERATIONS

Governance System and Structure
As part of the M&G Group, the company is subject to the Group's internal control and risk management processes as detailed in the Group Governance Manual and Group Risk Framework. The control procedures and systems established within the Group are designed to manage rather than eliminate the risk of failure to meet business objectives. As such, they provide strong but not absolute assurance against material misstatement or loss, and focus on optimising the levels of risk and reward with the aim of achieving the business objectives.

PPL's Board responsibilities include: strategy and business plan; internal control and risk management; and solvency and finance.

Risk Management
The Group Risk Framework requires all business units and functions within the Group, including the company, to establish processes for identifying, evaluating and managing key risks, The risk management framework for the company is approved by its Board and operates on the three lines of defence model: risk management, risk oversight and independent assurance.

The most significant risks for PPL are underwriting risks (primarily expense risk and persistency risk).

Administration
See Prudental Assurance Company Ltd

Benchmarks
See Prudental Assurance Company Ltd

Outsourcing
See Prudental Assurance Company Ltd

STRATEGY

Market Positioning
PPL's focus is on maximising value from the opportunity afforded by the growing need for retirement solutions.

PPL continues to benefit from the Group's Corporate Pension sales and is securing new members and incremental business from its current portfolio of customers and on AVC plans within the public sector, where it is the AVC scheme provider for 73 of the 101 UK public sector authorities.

PPL reported that it continued to make 'progress on its transformation programme to improve customer experiences and outcomes, support growth, boost efficiencies and bring greater stability. This involves modernising the business so that it is fit for the digital era through significant investment in new administration systems and digitalisation'.

Proposition
PPL's products are mostly unit linked, with some pension annuities.

PPL accepts reinsurance of unit linked corporate pensions business from PAC and from external parties. In addition it sells direct investment-only unit linked business to money purchase group pension schemes.

Approximately two thirds of unit linked assets are from business written directly with defined benefit trustees. The remainder being due to reassurance of defined contribution corporate pension customers from PAC. The majority of the unit-linked corporate pension business written by PAC is reassured to PPL.

A small block of non-profit pensions annuity business within the company, best estimate liability of £33m [2021: £44m], is reinsured to PAC.

PPL's M&G Pooled Pensions UK Property Fund, which was deferred in May 2019, was closed to new money in September 2021, is currently selling down its holdings and paying out to investors ahead of closure.

KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2022

Assets

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Fixed interest	26	24	16
Equities	0	0	0
Collectives	0	0	0
Property	0	0	0
Linked	9,224	8,088	5,699
Derivatives	0	0	0
Loans and mortgages	82	74	56
Reinsurance recoverables	2,004	1,827	1,619
Cash	7	12	13
Other	15	51	17
Total Assets	11,358	10,076	7,421

Liabilities

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Technical provisions - non-life	0	0	0
Technical provisions - health (similar to life)	0	0	0
Technical provisions - life	51	44	33
Technical provisions - linked	11,167	9,870	7,280
Other	56	85	30
Total Liabilities	11,273	9,999	7,343
Excess of assets over liabilities	85	77	78

Assets reduced by 26% in 2022 to £7.4bn [2021: £10.1bn] impacted by a net outflow and negative investment performance.

The majority of assets and liabilities relate to unit linked business, in line with PPL's business profile. Reinsurance recoverables relate primarily to unit linked business reinsured in from external parties.

PPL has a small amount of non profit annuity business, the best estimate liability for which was £32.9m [2021: £43.8m] (gross of reinsurance and 0.45% of technical provisions at 31 December 2022). These annuities are fully reassured to PAC and PPL is closed to new pension annuity business.

The excess of assets over liabilities increased slightly to £78m [2021: £77m].

Life & Health SLT Technical Provisions

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Insurance with profit participation	0	0	0
Linked insurance	5,486	4,384	2,552
Other life insurance	51	44	33
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health insurance	0	0	0
Health reinsurance	0	0	0
Life reinsurance	5,680	5,485	4,728
Total life & health SLT technical provisions	11,218	9,913	7,313

Life Expenses

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Health insurance	0	0	0
Insurance with profit participation	0	0	0
Linked insurance	25	26	18
Other life insurance	0	0	0
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	0	0	0
Other expenses	0	0	0
Total life expenses	25	26	18

Provisions are almost entirely unit linked. Life reinsurance relates to unit linked reinsurance accepted.

Solvency Capital Requirement (SCR)

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Market risk	35	29	23
Counterparty default risk	0	0	2
Life underwriting risk	38	19	10
Health underwriting risk	0	0	0
Non-life underwriting risk	0	0	0
Diversification	(32)	(17)	(11)
Intangible asset risk	0	0	0
Operational risk	14	19	15
Capital add-ons already set	0	0	0
Other items	(6)	(5)	(5)
Solvency capital requirement	50	45	34

Eligible Own Funds

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Tier 1 unrestricted	85	77	78
Tier 1 restricted	0	0	0
Tier 2	0	0	0
Tier 3	0	0	0
Eligible own funds to meet SCR	85	77	78
Excess of own funds over SCR	35	33	44
SCR coverage ratio (%)	171.0	173.3	231.5

PPL employs an Internal Model for Solvency II purposes and is managed with a relatively low level of surplus, reflecting its relatively low risk profile.

There was an increase in the Solvency II capital surplus to £44.2m [2021: reduction to £32.7m], predominately due a reduction in expense and credit risk capital following the increase in the risk-free interest rates experienced and updated renewal expense assumptions, offset by updated persistency assumptions.

PPL employs transitional measures on technical provisions, which increased its Solvency II surplus by £7m as at 31 December 2022 [2021: £8m]. Without the use of transitional measures, PPL's SCR coverage ratio would have been 204% [2021: 153%].

At 31 December 2022, PPL's SCR was £33.6m [2021: £44.6m]. The reduction of £11.0m [2021: reduction of £5.2m] was primarily due to market movements, which reduced the SCR by £8m.

Gross Life Premiums Written By Line of Business

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Health insurance	0	0	0
Insurance with profit participation	0	0	0
Linked insurance	1,085	916	320
Other life insurance	0	0	0
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	292	254	241
Total gross life premiums written	1,378	1,170	562

Gross Life Premiums Written By Country

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Home country	1,378	1,170	562
Country 1	0	0	0
Country 2	0	0	0
Country 3	0	0	0
Country 4	0	0	0
Country 5	0	0	0
Other countries	0	0	0
Total gross life premiums written	1,378	1,170	562

Premium written, which are all single premium unit linked, reduced by 52% in 2022, from £1,170m to £562m.

Within this, direct written business reduced by 68% from £844m to £269m, external reinsurance accepted reduced by 28% from £72m to £51m and intra-group reinsurance accepted reduced by 5% from £254m to £241m.

Profit

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Profit (loss) before taxation	3.6	(1.0)	(2.6)
Taxation	(1.4)	0.1	0.6
Profit (loss) after taxation	2.2	(0.9)	(2.0)
Other comprehensive income	0.0	0.0	0.0
Dividends	0.0	0.0	0.0
Retained profit (loss)	2.2	(0.9)	(2.0)

Life Business Flows

	Dec 20 £m	Dec 21 £m	Dec 22 £m
Net life premiums earned	1,378	1,170	562
Net life claims incurred	(2,038)	(2,913)	(1,714)
Net flow of business	(660)	(1,744)	(1,153)

The pre-tax loss increased from £1.0m in 2021 to £2.6m in 2022, mainly due to increasing interest rates reducing UK gilt valuations and increasing unrealised losses. This was partially offset by a reduction in expenses. No dividend was paid [2021: nil].

PPL wrote £562m [2021: £1,170m] of net premiums in 2022. The reduction was primarily due to lower single premium receipts from PPL's direct group pension business.

Net claims paid reduced by 41% to £1,714m [2021: £2,913m]. As a result, there was a reduced net outflow of £1,153m [2021: £1,744m].

Additionally, annuity payments of £4.1m [2021: £4.2m] were paid to policyholders, but this was fully recovered from PAC as part of a reassurance agreement.

Guide

INTRODUCTION

For over 30 years AKG has particularly focused on the financial strength requirements of financial advisers, who when acting on behalf of their clients, need to ascertain a company's ability to deliver sustained provision.

From this customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company (not some higher corporate entity) that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met.

It is also important to understand the sector approach (comparative peer groups) that is adopted in financial strength assessment and rating process.

At AKG, this is again driven by the end customer perspective and the fact that assessment is designed solely for this purpose, i.e. as a component in helping customers' advisers to select between comparable companies competing to deliver relevant products or services.

AKG's focus and approach has remained consistent over the years since it commenced assessment and rating support for the market. However, coverage, format and presentation has rightly evolved over this period, in line with the needs and expectations of assessment and rating users in the market. And AKG considers further changes on a continual basis.

Further details including an explanation of what is included in the assessment reports and coverage can be found online at https://www.akg.co.uk/information/reports/provider.

AKG's process for assessment and rating is to use a balanced scorecard of measures and comparative information, relevant to the companies contained within each peer group. This is gathered via Public Information only for non-participatory assessments and public information plus company interactions with companies for participatory assessments. Further details on AKG's process can be found at https://www.akg.co.uk/information/reports.

This includes further information on the different participatory and non-participatory basis and for companies wishing to learn more about participatory assessment AKG is pleased to outline this and welcomes contact.

This is a participatory assessment.

RATING DEFINITIONS

Overall Financial Strength Rating
The objective is to provide a simple indication of the general financial strength of a company from the perspective of those financial advisers who when acting on behalf of their clients need to ascertain a company's ability to deliver sustained operational provision of products or services.

The overall rating inherently reflects the mix of business within the company, since different types of customer or policyholder have different requirements and expectations, and the company may have particular strengths and weaknesses in respect of its key product or service areas. However, it also takes account of comparison across the sector in which it is assessed.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	A	B+	B	B-	C	D	▣
	Superior	Very Strong	Strong	Satisfactory	Weak	Very Weak	Not applicable

With Profits Financial Strength Rating
The objective is to provide a simple indication of the with profits financial strength of a company, where it currently offers with profits business or has existing with profits business within it.

This is from the perspective of those financial advisers who when acting on behalf of their clients, for this product type, need to ascertain a company's ability to deliver sustained operational provision of with profits funds, products or propositions. Its comparison is with other companies within the assessment sector that offer or have with profits business.

The main criteria taken into account are: capital and asset position, expense position and profitability, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy.

NOTE: More detailed analysis of with profits companies is included in AKG's UK Life Office With Profits Reports.

Rating Scale	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Unit Linked Financial Strength Rating
The objective is to provide a simple indication of the unit linked financial strength of a company, where it currently offers unit linked business or has existing unit linked business within it. This is from the perspective of those financial advisers who when acting on behalf of their clients, for this product type, need to ascertain a company's ability to deliver sustained operational provision of unit linked products or propositions. Its comparison is with other companies within the assessment sector that offer or have unit linked business.

The main criteria taken into account are: capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Non Profit Financial Strength Rating
The objective is to provide a simple indication of the non profit financial strength of a company, where it currently offers or has existing products and propositions such as term assurance and annuities. This focuses on the company's ability to deliver sustained operational provision of such non profit products or propositions. Its comparison is with other companies within the assessment sector that offer or have non profit business.

The main criteria taken into account are: capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, product / service features, its operating environment and ability to withstand external forces.

Rating Scale	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

Rating Scale	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Image & Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

Rating Scale	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Business Performance Rating

This review is an assessment of how the company and the brand has fared against its peers, and how it is perceived externally. Effectively this is how it has performed recently in the market. Whilst it will include performance indicators from the most recent available statutory reporting (report and accounts and SFCRs in the case of insurance companies, for example) it will also draw on other recent key performance elements before and after such disclosure, up to the point at which the assessment is undertaken.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity good or bad, press or market commentary, regulatory fines, and competitive position.

Rating Scale	☆☆☆☆☆	☆☆☆☆	☆☆☆	☆☆	☆	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

ABOUT AKG

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 30 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

As the market has evolved over this period, the range of entities considered by AKG has expanded. Consequently, AKG has brought additional skill sets into its operations. This has meant the inclusion of accounting, corporate finance, IT and market intelligence experience, alongside actuarial resources, to deliver an expanded professional capability.

Today AKG's core purpose is in the provision of financial analysis and review services to support the wider financial services sector and its customers.

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