ISSUED 06 December 2024

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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Rating & Assessment Commentary
Group & Parental Context
Company Analysis
Guide

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, via its PruFund offering, 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, However in September 2024, M&G confirmed its decision to exit its platform business and to follow a broader platform strategy for distributing PruFund
- May 2021 saw the commencement of the roll out of the new brand, Pru
- The full range of PruFunds were made available on the M&G Wealth Platform in May 2023
- M&G continues to expand the business with recent investments in Continuum, Sandringham, TCF Investments, Moneyfarm and responsAbility
- M&G's shareholder Solvency II coverage ratio increased to 203% as at 31 December 2023 [2022: 199%]
- September 2024 saw M&G announce that it was to bring its Wealth and Life Businesses together under the leadership of Clive Bolton

COMMENTARY

Financial Strength Ratings

M&G is listed on the UK Stock Exchange and is a FTSE 100 savings and investments business, serving over 4.6m retail customers and providing investment solutions to more than 900 institutional clients, with a current market cap of around £5bn. The group operates internationally through 38 offices and distributes its products across 26 markets.

As at 30 June 2024, the group's AuMA were £346bn [31 December 2023: £344bn].

The group has continued to evolve its reporting structure, having undertaken prior re-segmentations in 2021 and 2022, and in 2023 the group again updated its business model, with the rationale of this better serving its strategic priorities. This structure comprised three distinct segments of Asset Management, Life, and Wealth - the latter two representing a split of the previous Retail & Savings segment. However, in September 2024, M&G announced its intention, following a strategic review, to focus and rationalise its Wealth strategy, combining the Life and Wealth operations under the leadership of Clive Bolton.

At the year end 2023, M&G plc had £4.5bn surplus Own Funds [2022: £4.6bn] and a Shareholder Solvency II coverage ratio of 203% [199%]. Own Funds reduced from £9.4bn to £8.9bn, with capital generation, net of the eligible own funds restriction, of £358m offset by the payment of £462m dividends. The SCR reduced from £4.7bn to £4.4bn, driven by benefits from management actions including asset trading and optimisation. The group Shareholder Solvency II coverage ratio had increased to 210% as at 30 June 2024.

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 167% [2022: 164%] at 31 December 2023, increasing to 173% as at 30 June 2024.

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 2023, PAC had Own Funds of £9.2bn [2022: £9.6bn]. With an SCR of £6.0bn [2022: £6.3bn], the SCR coverage ratio remained stable at 154% [2022: 154%].

Additionally, and of most significance, was the demerger which, whilst not significantly impacting upon solvency, positioned the company as a more important component, albeit in a smaller but more focused group. Recent acquisitions by M&G, in particular Ascentric, Sandringham and Continuum, were positive developments and bring with it opportunities for PAC to widen its offering and distribution, in particular of PruFund. The subsequent decision to dispose of or wind down the M&G Wealth platform should be offset by the planned broader platform distribution of PruFund.

PAC 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 Solvency II coverage ratio increased to 403% [2022: 364%]. Solvency surplus increased by £0.5bn in 2023 to £7.2bn [2022: £6.7bn]. Although the distribution of excess surplus to policyholders reduced with profits surplus by £0.9bn, the impact was offset by positive market movements and management actions such as updates to the strategic asset allocation and the transfer of private assets from the with profits estate to the asset share funds, reducing the market risk borne by the estate. The implementation of the risk margin reforms also contributed to the increase in ratio. The With-Profits Fund SCR reduced slightly to £2.4bn [2022: £2.5bn].

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 and further to 267% as at 31 December 2023.

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

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, but more recently has received 3 stars at the 2024 Financial Adviser Service Awards in both the Investment [2023: 4 stars] and Pensions & Protection [2023: 4 stars] categories. Additionally in 2024, the M&G Wealth Platform received 3 stars [2023: 2 stars] and M&G Wealth Investments received 3 stars [2023: 3 stars] for Investments and 5 stars [2023: 5 stars] in the DFM category. M&G plc had been named as company of the year in 2022.

PAC continues to report 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.

2023 saw PAC continue to focus on improving the quality of customer service and customer outcomes, migrating clients to enhanced policy platforms, with a focus on digitisation and greater flexibility for customers. PAC reported that overall service continued to improve and that the client Net Promoter Score had marginally improved from + 14 in December 2022 to + 15 in December 2023.

Image & Strategy Rating

May 2021 saw 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 believes that it can deliver 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. In 2023, PIA obtained its first bancassurance partner in Poland.

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 had withdrawn from the annuity market. However, Pru re-entered the bulk purchase annuity market in 2023 and is looking to launch a fixed term annuity in 2025.

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, with plans to extend this to other platforms.

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.

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

The M&G Wealth division, with assets under management and administration (AuMA) totalling £84.6bn as at 31 December 2023 [2022: £83.4bn], was created in September 2020 and comprised of 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.

As part of transforming the business following a strategic review, M&G decided that Wealth should be more closely aligned to its Life business and is simplifying its operating model by bringing together Wealth and Life under the leadership of Clive Bolton, which will allow it to concentrate its resources, complementing PruFund with life insurance solutions, reduce duplication and improve operational efficiency. Underpinning these decisions is an ongoing drive to deliver improved client outcomes. Future focus will be on continuing to grow the distribution of its own solutions through its restricted advice channel and independent advisers, and making its propositions more accessible on third party platforms. It will exit the M&G Wealth platform as part of focusing the business. M&G has also stated that it remains committed to the UK retail market and restated its strategic priorities in 2024 as:

- Maintain its financial strength
- Build on the progress already achieved in simplifying the business
- Deliver profitable growth in the UK and internationally

Business Performance Rating

PAC's profit before tax increased by £2,251m to a profit of £390m at 31 December 2023 [2022: loss of £1,861m] reflecting the fall in adjusted operating profit before tax of £144m, a £2,391m increase from short term fluctuations in investment returns consistent with M&G plc, and a £4m decrease in restructuring costs.

PAC completed two bulk-purchase annuity transactions in September 2023, for a combined premium of £617m.

PPL's profit before tax increased from a loss of £2.6m in 2022 to a profit of £1.2m in 2023, mainly due to a lower unrealised loss on UK gilts.

M&G plc reported amongst its 2023 key performance measures:

- Adjusted operating profit before tax of £797m, up by 28% from £625m (restated) in 2022, driven by strong results across with profits and annuities business
- Total capital generation of £358m, a reversal of negative £397m in 2022, driven by positive market movements and improved operating performance
- Net client inflows (excluding Heritage) £1.1bn [2022: £0.2bn] - inflows to PruFund and in Wholesale despite challenging markets
- IFRS profit after tax (PAT) £309m [2022: IFRS loss of £2,055m restated, after tax] - large loss in 2022 driven by adverse market fluctuations, 2023 saw improved conditions
- AuMA increased slightly to £343.5bn [2022: £342.0bn]. Within this, PruFund AuMA increased to £61.3bn [2022: £58.3bn], with net client inflows of £1.0bn [2022: £0.7bn] and positive market and other movements of £1.9bn [2022: £0.8bn negative]

As at December 2023, M&G operated across three operating segments: Asset Management, Life, and Wealth. The Asset Management segment, with £154.2bn external AUMA as at 31 December 2023 [2022: £154.2bn], includes both Wholesale and Institutional business. The Life segment, with £100.9bn AUMA as at 31 December 2023 [2022: £103.0bn], predominantly comprised the traditional with profits business as well as the annuities and corporate pensions businesses. The Wealth segment, with £87.1bn AUMA as at 31 December 2023 [2022: £83.4bn], included the UK PruFund business and platform and advice business. In addition, there were £1.3bn of corporate assets as at 31 December 2023 [2022: £1.4bn].

In respect of Adjusted Operating Profit (AOP), the Wealth segment contributed £180m towards the group's total £797m, although this was largely achieved through the PruFund UK (£228m), with the Platform & Advice area reporting an overall adjusted operating loss of £32m. AOP was £586m in Life and £242m in Asset Management. Across the group, total restructuring and transformation costs (excluded from adjusted operating profit) amounted to £141m in 2023 [2022: 147m], with investment spend of £73m on further transformation projects [2022: £48m], £30m in respect of building out capability in the Asset Management business [2022: £36m] and £19m [2022: £32m] in respect of the development of the M&G Wealth platform business.

Operating Change in CSM (Contractual Service Margin) was introduced on the adoption of IFRS17 by the group and gives a wider representation of the drivers of performance including the impact of new business and management actions. The operating change to CSM in 2023 was £355m, up from £129m in 2022, the majority of the increase coming from PruFund UK business, at £230m [2022: £54m].

Group & Parental Context

BACKGROUND

M&G plc is a FTSE 100 listed financial services company incorporated in the UK. M&G plc was formerly the UK and European savings and investments business of Prudential plc. Following demerger from Prudential plc, M&G plc was separately listed on the UK Stock Exchange on 21 October 2019, and now operates as a savings and investments business, serving over 4.6m retail customers and providing investment solutions to more than 900 institutional clients.

The group is comprised of two main subsidiaries, which own the majority of the group's regulated entities: PAC, an insurance company providing life and savings products to retail customers; and M&G Group Ltd, holding company of the group's asset management business, M&G Investments. M&G currently has investment capabilities, an international distribution network and five customer brands: Prudential/Pru, M&G Investments, M&G Real Estate, M&G Wealth and Infracapital. The group operates internationally and distributes its products across 28 markets, serving its savings and insurance customers under the Prudential/Pru brand in the UK and Europe, and under the M&G Investments brand for asset management clients globally. As at 30 June 2024, the group's AuMA were £346bn [31 December 2023: £344bn].

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. As at December 2023, M&G Wealth 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).

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' were 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). M&G acquired a further 25.05% stake in March 2024, with a view to acquiring the remaining 25.05% in March 2025.

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.

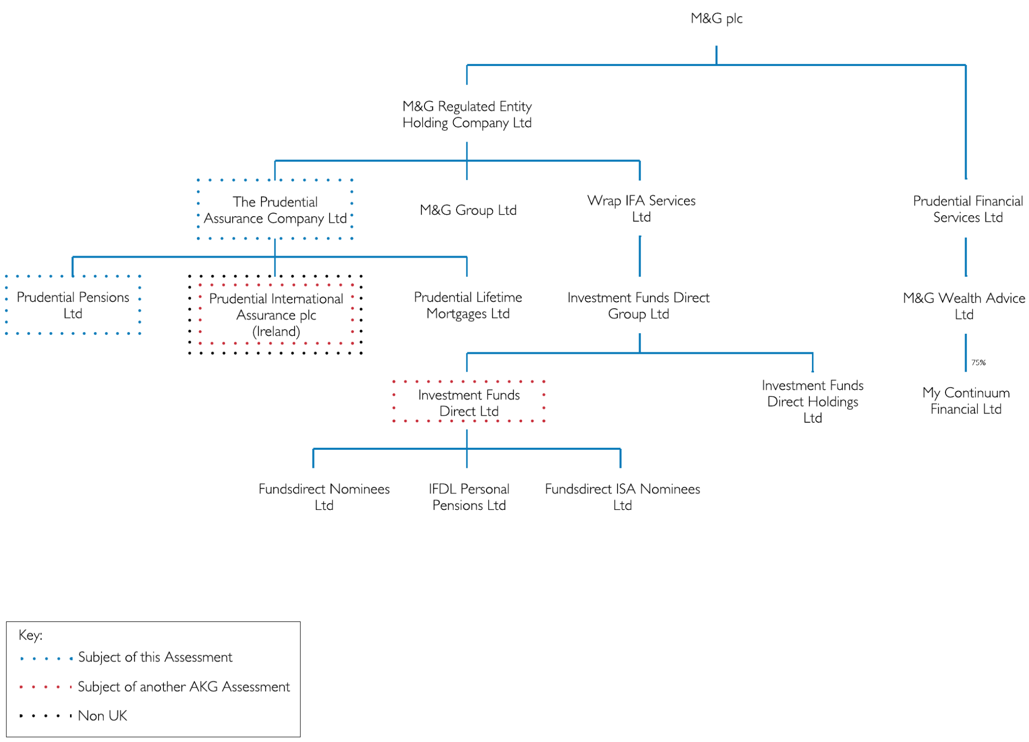
Clare Bousfield, formerly the CFO and latterly CEO of Retail and Savings, stepped down from 30 June 2023, and two new dedicated CEO roles were created for the separate Wealth and Life insurance businesses that replaced Retail & Savings. These were filled initially by Clive Bolton (Life) and Caroline Connellan (Wealth).

As at December 2023, M&G had three operating segments: Asset Management, Wealth and Life (these latter two replacing the previous Retail & Savings segment in 2023).

As part of transforming the business, a strategic review of the Wealth business was undertaken in 2023 and concluded that M&G's competitive position in the wealth market was not sufficiently strong to ensure profitable growth without committing significant further resources, and as a result M&G decided to exit the adviser digital platform (M&G Wealth Platform) in order to focus and rationalise its Wealth strategy. The Wealth segment became more closely aligned to the Life business under this strategy, with these business areas brought together under the leadership of Bolton in 2024, with Connellan moving into a strategic adviser role and set to leave M&G at the end of 2024.

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	C G Bolton
Chief Risk Officer	G N Barton
Chief Actuary	J R Hughes
With Profits Actuary	J Gillman
Director of PruFund Proposition	K Wright
Managing Director, Individual Life & Pensions	A Mittal
Managing Director, International Life	M Robinson

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).

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.

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 plc 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 and to achieving net zero emissions as a business by 2050.

Consumer Duty is seen as a key area for the business as it continues to focus on the creation of value for the customer. The board held a number of discussions during 2023 to consider and approve a plan to implement the Consumer Duty throughout the business, and the Life and Wealth businesses had a suite of customer outcome management information in place to support the implementation.

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, including complying with regulatory requirements, and are overseen by the second line Risk and Compliance 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. Over the course of 2023, the Compliance Transformation programme delivered a number of enhancements designed to address the key observations made in the review, and support improvements to the efficiency and effectiveness of the compliance function. The Compliance Transformation Programme was considered materially complete at the end of 2023.

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

In 2023, PAC's shareholder fund entered into a new arrangement with the With-Profits Fund in relation to future shareholder transfers expected to emerge from PruFund business written to 31 December 2022, accepting a one-off cash payment in lieu of 20% of the transfers. This arrangement generates certainty and cash for the shareholder while reducing the With-Profits Fund exposure to a potential mismatch between the value of the shareholder transfers and the fixed charges taken to cover those transfers. In addition, under the arrangement the shareholder paid the With-Profits Fund for a higher share of future surplus from certain cohorts of business.

Administration

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.

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.

The company reported that the transformation programme to support better outcomes for clients continued to progress well during 2023 and the first half of 2024. The aims of the programme are to 'make the best use of technology, create the optimal sourcing and location strategy and deliver a leaner and more efficient organisation'. Nearly 80% of Heritage policies have been migrated onto a single, modern platform solution, which offers a better and more digital customer experience. Across the whole business £121m of cost savings have been delivered in the first 18 months of the programme, which is 60% of the target announced in March 2023.

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'.

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).

Awards in 2024 include:

- Defaqto: Pension Service Rating 2024 - Gold
- Defaqto: Onshore bond Service Rating 2024 - Gold
- Defaqto: International bond Service Rating 2024 - Gold
- Professional Paraplanner Awards 2024: Best Technical Support to Paraplanners (8th year in a row)

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. Pru was awarded 3 stars at the 2024 Financial Adviser Service Awards in both the Investment [2023: 4 stars, 2022 and 2021: 5 stars] and Pensions & Protection [2023, 2022 and 2021: 4 stars] categories. 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 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.

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.

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 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.

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 comprised the M&G Wealth Platform, M&G Wealth Investments and M&G Wealth Advice, but with the Wealth segment more closely aligned to the Life business under M&G's revised strategy, these business areas were brought together in 2024.

2022 and 2023 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, 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..

Pru distributes life products through four UK channels: Intermediaries (dedicated account managers and sales support), 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 and 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 account managers, sales support, technical helpline and specialist team.

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. Following the decision to sell/wind down the M&G Wealth Platform, Pru will now seek to achieve this through external platforms.

PAC's roll out of business in Poland continues to generate sales volumes, with sales now recovering from pandemic impact and 2023 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).

Proposition

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

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 states that client research and engagement helps it better align with client needs, and informs the design of products, client journeys and communications. PAC's proposition has evolved by widening the range of products and services it offers, including advice and guidance. New business had 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.

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.

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. Reacting to renewed demand for annuities, Pru re-entered the BPA market in 2023, with 2 transactions for a combined premium of £617m, and is looking to launch a fixed term annuity in 2025.

PruFund 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). More recently the passive, hybrid and ESG MPS ranges have also been added.

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 £153bn as at 31 December 2023 across a range of multi-asset investment solutions, unit linked funds and annuities on behalf of Prudential UK and Europe.

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 increased in 2023 to £61.3bn [2022: £58.3bn].

The performance of PruFund and the underlying £129bn [2022: £129bn] With-Profits Fund was positive. The pre-tax investment return on the WPSF was 4.3% in 2023 [2022: 1.5% negative].

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.

In May 2022 PruFund Growth, PruFund Cautious and five Risk Managed PruFunds were launched on the M&G Wealth Platform.

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 2023, 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 slightly from +14 in December 2022 to +15 in December 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 2023, Catalyst had deployed over £2bn of capital, with further committed capital of around £ibn, including new investments in technology that reduces wastewater in industrial processing where nearly half of the world's water is currently used, an affordable blood test to detect the presence of any of twenty types of cancer in the body at an early stage, and a company that replaces chemical fertilizers and pesticides with biological substitutes, such as beneficial insects and mites, significantly reducing the environmental damage of agriculture.. 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 2023

Assets

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Fixed interest	61,040	45,030	44,932
Equities	21,302	9,879	9,518
Collectives	10,670	9,946	7,815
Property	8,099	6,877	6,354
Linked	7,210	6,095	5,770
Derivatives	3,179	2,551	1,403
Loans and mortgages	18,596	20,053	14,051
Reinsurance recoverables	6,795	5,481	5,753
Cash	1,382	748	715
Other	47,478	57,950	66,162
Total Assets	185,751	164,610	162,471

Liabilities

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Technical provisions - non-life	128	121	64
Technical provisions - health (similar to life)	0	(9)	(7)
Technical provisions - life	141,406	124,780	125,374
Technical provisions - linked	12,848	10,930	10,954
Other	11,431	12,472	9,706
Total Liabilities	165,813	148,294	146,092
Excess of assets over liabilities	19,938	16,316	16,379

Total assets reduced by 1% in 2023 to £162.5bn [2022: £164.6bn]. Total liabilities also reduced by 1% to £146.1bn [2022: £148.3bn], including a provision of £140m [2022: £226m] relating to pension mis-selling.

The excess of assets over liabilities increased slightly to £16.4bn [2022: £16.3bn].

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 2023, Catalyst had deployed over £2bn of capital, with further committed capital of around £1bn, including new investment in technology that reduces wastewater in industrial processing where nearly half of the world's water is currently used, an affordable blood test to detect the presence of any of twenty types of cancer in the body at an early stage, and a company that replaces chemical fertilizers and pesticides with biological substitutes, such as beneficial insects and mites, significantly reducing the environmental damage of agriculture.

Life & Health SLT Technical Provisions

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Insurance with profit participation	106,743	98,582	98,868
Linked insurance	12,848	10,930	10,954
Other life insurance	26,865	18,545	18,313
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health insurance	0	(9)	(7)
Health reinsurance	0	0	0
Life reinsurance	7,797	7,653	8,193
Total life & health SLT technical provisions	154,254	135,701	136,321

Life Expenses

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Health insurance	2	1	1
Insurance with profit participation	571	647	607
Linked insurance	118	121	181
Other life insurance	167	177	148
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	28	100	107
Other expenses	63	16	14
Total life expenses	949	1,063	1,057

With profits business accounted for 73% [2022: 73%] of technical provisions, reflecting PAC's commitment to this line.

Net operating expenses were £749m [2022: £674m]. Net operating expenses included £608m [2022: £540m] related to administration expenses, £11m [2022: £3m] related to reinsurance commissions and profit participation and £130m [2022: £131m] related to acquisition costs and amortisation/impairment of deferred acquisition costs. Investment expenses and charges are comprised of investment management expenses of £283m [2022: £353m], plus interest on bank borrowings which were nil in 2023 [2022: £7m].

Administration expenses, which are principally recharged from Prudential Distribution Ltd, a service company within the group, increased by £68m mainly due to increased property costs, operating expenses and project costs in 2023.

The decrease in investment management fees was mainly due to reclassifications of property related expenses out of Investment Management Expenses and a reduction in the transaction charges from fund managers compared to the previous year.

Solvency Capital Requirement (SCR)

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Market risk	7,251	5,345	5,513
Counterparty default risk	126	102	83
Life underwriting risk	2,916	1,493	2,009
Health underwriting risk	0	0	0
Non-life underwriting risk	0	0	0
Diversification	(2,070)	(1,449)	(2,558)
Intangible asset risk	0	0	0
Operational risk	1,381	1,298	2,647
Capital add-ons already set	0	0	0
Other items	(1,307)	(530)	(1,724)
Solvency capital requirement	8,296	6,258	5,969

Eligible Own Funds

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Tier 1 unrestricted	12,161	9,226	8,827
Tier 1 restricted	0	0	0
Tier 2	0	0	0
Tier 3	0	392	387
Eligible own funds to meet SCR	12,161	9,618	9,214
Excess of own funds over SCR	3,866	3,360	3,245
SCR coverage ratio (%)	146.6	154.0	154.0

PAC has approval by the PRA to calculate its SCR based on its internal model.

Own funds eligible to cover the solvency capital requirement (SCR) and minimum capital requirement (MCR) were £9.2bn and £8.8bn respectively [2022: £9.6bn and £9.2bn] and were predominantly Tier 1 unrestricted own funds, although there was also a net deferred tax asset of £387m [2022: £392m].

PAC's Solvency II surplus reduced to £3,245m [2022: £3,360m], predominantly reflecting the operational surplus generation over the year and the impact of the PRA risk margin and TMTP reforms, offset by the change in economic conditions over the year and the payment of the dividend of £500m [2022: £500m].

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 £3.2bn, but results in a higher SCR of 190% [2022: 190%].

PAC employs the transitional measure for technical provisions and the matching adjustment. If these are excluded, own funds reduce to £8.2bn, whilst the solvency capital requirement increases to £9.2bn, leading to a coverage ratio of 89% [2022: £8.1bn; £9.5bn and 85% respectively].

Gross Life Premiums Written By Line of Business

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Health insurance	14	36	12
Insurance with profit participation	3,833	5,454	6,330
Linked insurance	410	344	334
Other life insurance	178	121	769
Annuities - from non-life health	0	0	0
Annuities - from non-life non-health	0	0	0
Health reinsurance	0	0	0
Life reinsurance	537	811	803
Total gross life premiums written	4,972	6,766	8,247

Gross Life Premiums Written By Country

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Home country	4,432	5,953	7,442
Country 1	463	735	719
Country 2	51	54	62
Country 3	23	22	21
Country 4	2	1	0
Country 5	1	0	0
Other countries	1	0	3
Total gross life premiums written	4,972	6,766	8,247

Gross written premiums increased by £1,481m, from £6,766m to £8,247m.

The majority of PAC's, and hence M&G's, premiums relate to 'Insurance with profit participation' and principally relate to PruFund business. Net inflows into PruFund, including non-UK, increased over 2023 to £1.0bn [2022: £0.7bn].

Profit

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Profit (loss) before taxation	75	(1,861)	390
Taxation	3	448	(101)
Profit (loss) after taxation	78	(1,413)	289
Other comprehensive income	16	18	(19)
Dividends	(1,550)	(500)	(500)
Retained profit (loss)	(1,456)	(1,895)	(230)

Life Business Flows

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Net life premiums earned	3,717	6,067	7,531
Net life claims incurred	(11,746)	(12,000)	(12,706)
Net flow of business	(8,029)	(5,932)	(5,175)

PAC's adjusted operating profit before tax reduced by 26% to £404m [2022: £548m], consisting of £179m [2022: £354m] relating to the shareholder transfer and associated hedges from the With-Profits Fund, £240m [2022: £227m] relating to the annuities business, and a loss of £15m [2022: £33m loss] on unit-linked and other business.

Profit before tax increased by £2,251m to a profit of £390m at 31 December 2023 [2022: loss of £1,861m] reflecting the fall in adjusted operating profit before tax of £144m, a £2,391m increase from short term fluctuations in investment returns consistent with M&G plc, and a £4m decrease in restructuring costs.

Total dividends of £500m were paid [2022: £500m]. A final dividend in respect of 2023 of £333m was approved in March 2024, which is not recognised in the Solvency II position at 31 December 2023.

Shareholders' funds reduced to £2,555m [2022: £2,783m]. The decrease of £228m consists of dividends paid of £500m and a net other negative movement of £17m, partially offset by a profit after tax of £289m [2022: decrease of £1,895m consisting of dividends paid of £500m and a loss after tax of £1,413m, partially offset by other income of £18m].

With net premiums increasing to £7.5bn [2022: £6.1bn] and net claims increasing to £12.7bn [2022: £12.0bn] there was a reduced net outflow of £5.2bn [2022: £5.9bn].

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 £3.8bn as at 31 December 2023) and from external parties (reserves of £1.7bn). In addition, it sells direct investment-only unit linked business to money purchase group pension schemes (reserves of £2.2bn).

A small block of non-profit pensions annuity business (around £30m) is reinsured to PAC.

OPERATIONS

Governance System and Structure
As part of M&G, the company is subject to the group's internal control and risk management processes as detailed in the Group Governance Manual and associated 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. The company takes on exposure to risks where such risks are adequately rewarded, and can be appropriately quantified and managed to safeguard the company's ability to meet commitments to customers, comply with regulations, and protect its reputation.

The PPL Board has responsibility for the oversight, governance, direction, long-term sustainability and success of PPL as a subsidiary of PAC and is authorised to exercise all the powers of PPL subject to complying with the Group Governance Framework. The PPL Board principal responsibilities include:

- Adopting the Group strategy, long-term objectives, annual budgets and business plan
- Monitoring PPL's risk management and internal control processes in line with the Group frameworks
- Approving any changes relating to PPL's solvency or financial condition

Risk Management
The Group Risk Management Framework (RMF) requires all entities within the group, including the company, to establish processes for identifying, measuring, managing, monitoring and reporting key risks, The RMF is designed to manage risk within agreed appetite levels which are aligned to delivering the Group and Company strategy. The. RMF is approved by the Group Risk Committee and operates based on the concept of three lines of defence: (1) risk identification and management; (2) risk oversight, advice and challenge; and (3) independent assurance.

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

Administration
See Prudential Assurance Company Ltd

Benchmarks
See Prudential Assurance Company Ltd

Outsourcing
See Prudential 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.

Rating & Assessment Commentary
Group & Parental Context
Company Analysis
Guide

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 £30m [2022: £33m], 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 2023

Assets

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Fixed interest	24	16	16
Equities	0	0	0
Collectives	0	0	0
Property	0	0	0
Linked	8,088	5,699	6,093
Derivatives	0	0	0
Loans and mortgages	74	56	53
Reinsurance recoverables	1,827	1,619	1,681
Cash	12	13	4
Other	51	17	25
Total Assets	10,076	7,421	7,871

Liabilities

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Technical provisions - non-life	0	0	0
Technical provisions - health (similar to life)	0	0	0
Technical provisions - life	44	33	30
Technical provisions - linked	9,870	7,280	7,738
Other	85	30	24
Total Liabilities	9,999	7,343	7,793
Excess of assets over liabilities	77	78	78

Assets increased by 6% in 2023 to £7.9bn [2022: £7.4bn] as positive investment performance exceeded a net outflow.

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 £30.2m [2022: £32.9m] (gross of reinsurance and 0.39% of technical provisions at 31 December 2023). These annuities are fully reassured to PAC and PPL is closed to new pension annuity business.

The excess of assets over liabilities remained at £78m [2022: £78m].

Life & Health SLT Technical Provisions

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Insurance with profit participation	0	0	0
Linked insurance	4,384	2,552	2,234
Other life insurance	44	33	30
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	5,485	4,728	5,504
Total life & health SLT technical provisions	9,913	7,313	7,768

Life Expenses

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Health insurance	0	0	0
Insurance with profit participation	0	0	0
Linked insurance	26	18	7
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	26	18	7

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

Solvency Capital Requirement (SCR)

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Market risk	29	23	16
Counterparty default risk	0	2	0
Life underwriting risk	19	10	12
Health underwriting risk	0	0	0
Non-life underwriting risk	0	0	0
Diversification	(17)	(11)	(6)
Intangible asset risk	0	0	0
Operational risk	19	15	14
Capital add-ons already set	0	0	0
Other items	(5)	(5)	(6)
Solvency capital requirement	45	34	29

Eligible Own Funds

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Tier 1 unrestricted	77	78	78
Tier 1 restricted	0	0	0
Tier 2	0	0	0
Tier 3	0	0	0
Eligible own funds to meet SCR	77	78	78
Excess of own funds over SCR	33	44	49
SCR coverage ratio (%)	173.3	231.5	267.0

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.

Solvency II capital surplus increased to £48.8m [2022: £44.2m] primarily due to the decrease in the SCR to £29.3m [2022: £33.6m]. The underlying movements resulted in a £3m reduction due to partially offsetting impacts from the reduction in capital as the business runs off and the increase in capital as new business is written. Other operating items resulted in a £2m decrease in the SCR. Restructuring and other items resulted in a £1m decrease in the SCR. Market movements increased the SCR by £1m.

There has been a material reduction in risk margin, and transitional measures have reduced to nil, as a result of the PRA implementation of risk margin reforms at year-end 2023.

Gross Life Premiums Written By Line of Business

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Health insurance	0	0	0
Insurance with profit participation	0	0	0
Linked insurance	916	320	407
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	254	241	271
Total gross life premiums written	1,170	562	678

Gross Life Premiums Written By Country

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Home country	1,170	562	678
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	1,170	562	678

Premiums written, which are all single premium unit linked, increased by 21% in 2023, from £562m to £678m.

Within this, direct written business increased by 33% from £269m to £357m, external reinsurance accepted reduced by 4% from £51m to £50m and intra-group reinsurance accepted increased by 12% from £241m to £271m.

Profit

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Profit (loss) before taxation	(1.0)	(2.6)	1.2
Taxation	0.1	0.6	(0.5)
Profit (loss) after taxation	(0.9)	(2.0)	0.7
Other comprehensive income	0.0	0.0	0.0
Dividends	0.0	0.0	0.0
Retained profit (loss)	(0.9)	(2.0)	0.7

Life Business Flows

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Net life premiums earned	1,170	562	678
Net life claims incurred	(2,913)	(1,714)	(862)
Net flow of business	(1,744)	(1,153)	(184)

Profit before tax increased from a loss of £2.6m in 2022 to a profit of £1.2m in 2023, mainly due to a lower unrealised loss on UK gilts. 2022 reported a higher unrealised loss due to increased interest rates reducing UK gilt valuations. The increase has been partially offset by a reduction in net annual management charges following a reduction in average funds under management. No dividend was paid [2022: nil].

Net premiums earned increased by 21% to £678m [2022: £562m]. With net claims incurred reducing by 50% to £862m [2022: £1,714m], there was a much reduced net outflow of £184m [2022: £1,153m].

Additionally, annuity payments of £3.7m [2022: £4.1m] 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.

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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