

Capital Management Considerations A View from Business Unit

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Presented to ACHS Meeting

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Prudential
Bring Your ChallengesSM



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Bring Your ChallengesSM

Agenda



- ✓ **Why is Capital Management Important ?**
- ✓ **What is Capital ?**
- ✓ **Examples of Capital Management Considerations**

Why is Capital Management Important?

Capital is a scarce resource !



Liquidity

Shareholder
Value

Business
Risk

Business
Growth

What is Capital?



$$\text{Capital} = \text{Equity} + \text{Capital Debt}$$

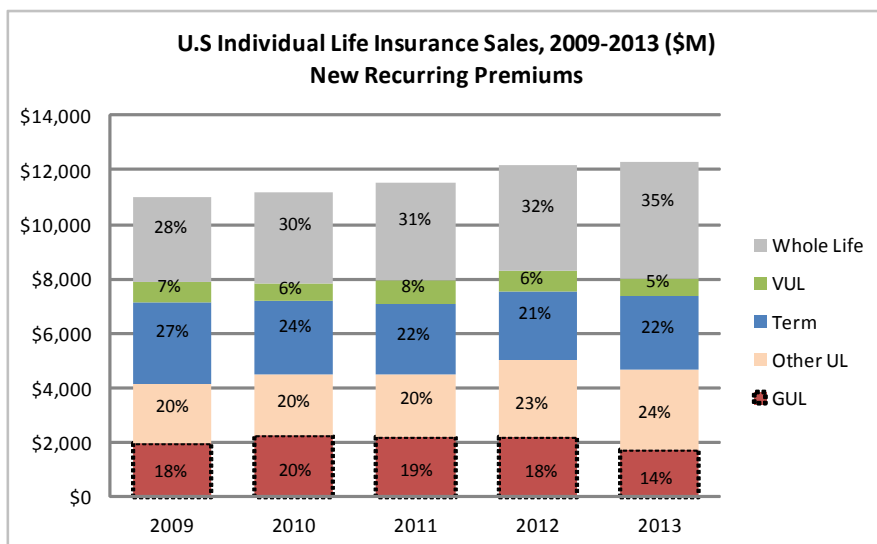
Capital Management is a process of :

- i. Continually ensuring that we have access to capital at lowest possible cost to finance the company's business strategies;
- ii. Maintaining appropriate capital levels relative to risk, consistent with out ratings targets;
- iii. Balancing the mix of capital to diversify the sources, expand capacity, and get best price to produce the highest possible shareholder value;
- iv. Measuring productivity of capital

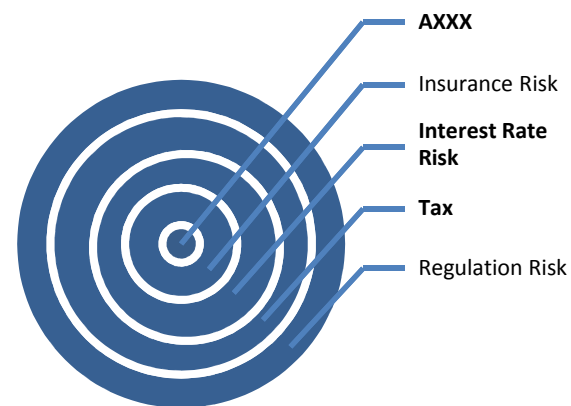
Strategic Decisions related to Capital Management



Life Product Example



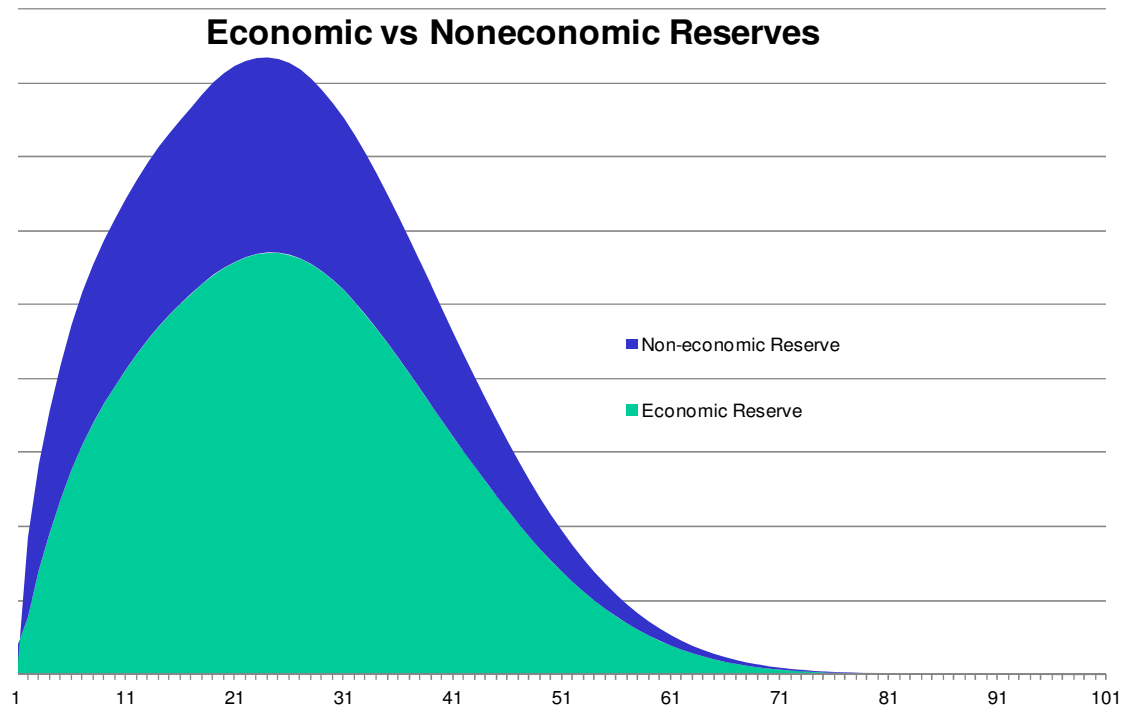
Key Considerations



Sources: LIMRA U.S. Individual Life Sales Trends, October 2013
LIMRA U.S. Individual Life Sales Survey, 4Q 2013

GUL is a flexible premium, universal life product that provides low-cost, permanent death benefits. GUL is primarily sold as a death benefit product due to its poor cash accumulation

Managing AXXX



Managing AXXX

Life Balance Sheet - Before Capital Management

Assets Backing Economic Reserves	\$10	Economic Reserves	\$10
Assets Backing Non-Economic Reserves	6	Other Liabilities	<u>2</u>
		Total Liabilities	\$12
Other Assets	<u>4</u>	Non-Economic Reserves (Capital)	<u>6</u>
Total Assets	\$20	Economic Required Capital	<u>2</u>
		Total Capital (100% Equity)	\$8

Life Balance Sheet - with Capital Management

Assets Backing Economic Reserves	\$10	Economic Reserves	\$10
Assets Backing Non-Economic Reserves	6	Operating Debt	<u>6</u>
		Other Liabilities	<u>2</u>
Other Assets	<u>4</u>	Total Liabilities	\$18
Total Assets	\$20	Economic Required Capital	<u>2</u>
		Total Capital (100% Equity)	\$2

Managing AXXX

Without Cap Mgmt

AFIT \$0.5

Capital 8

ROC 4%

Cost of Capital 12%

With Cap Mgmt

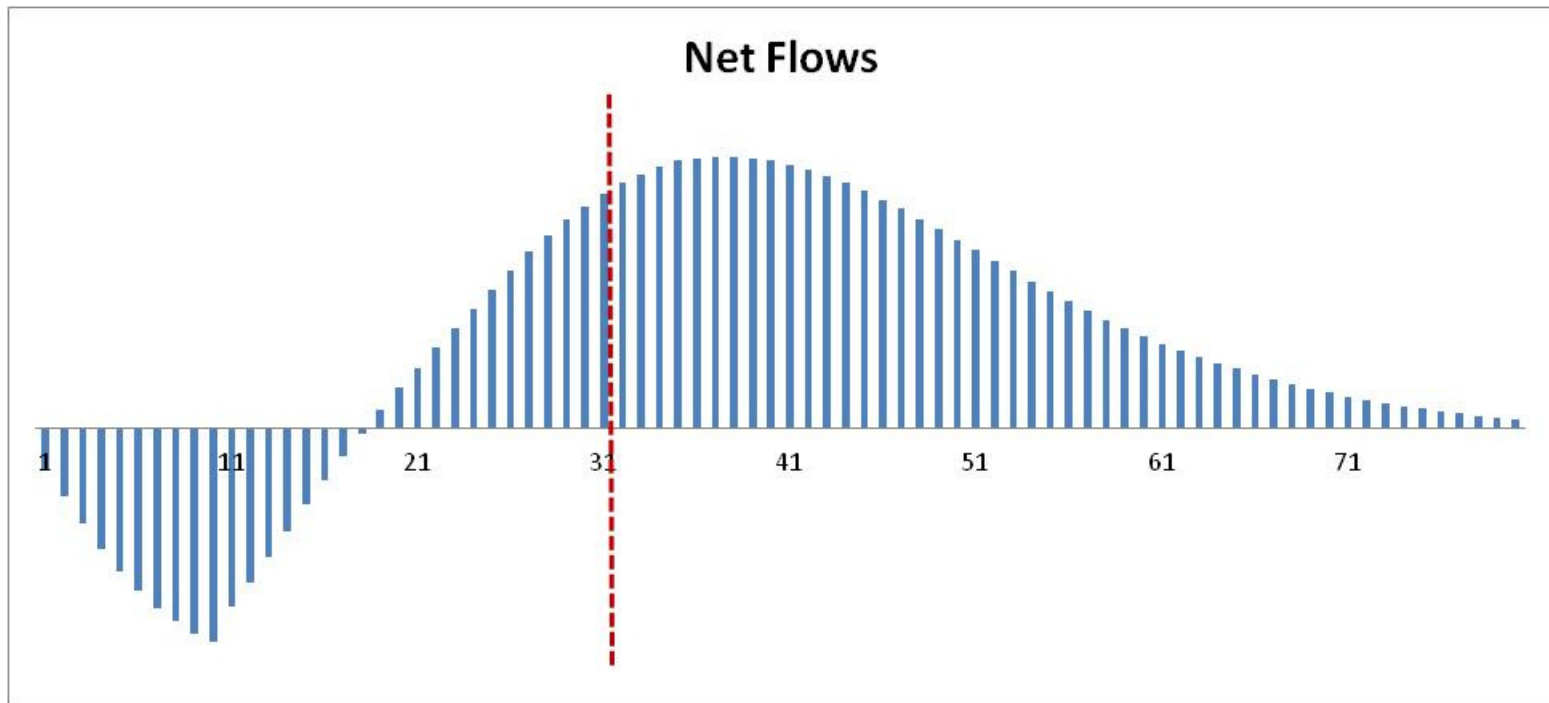
AFIT \$ 0.3

Capital 2

ROC 15%

Cost of Capital 12%

Managing Interest Rate Risk



Managing Interest Rate Risk

Without ALM Improvement

AFIT \$0.3

Capital 2

ROC 15%

Cost of Capital 12%

With ALM Improvement

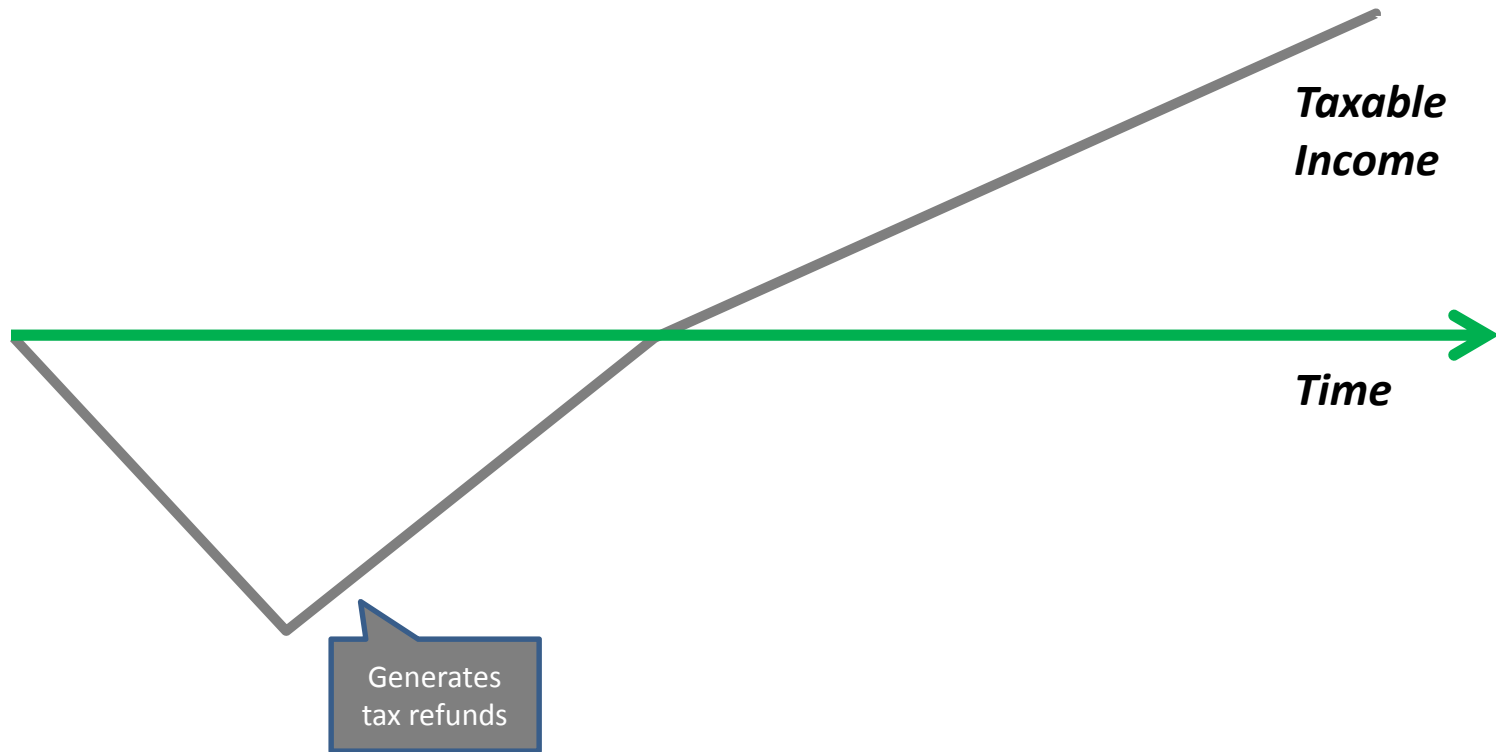
AFIT \$ 0.4

Capital 1.8

ROC 22%

Cost of Capital 12%

Managing Tax



Managing Tax

Maintain Active Tax Mgmt

AFIT \$0.4

Capital 1.8

ROC 22%

Cost of Capital 12%

If Fail to Manage

AFIT \$ 0.3

Capital 2

ROC 15%

Cost of Capital 12%

In Summary

