

09-Dec-2020

Prudential Financial, Inc. (PRU)

Goldman Sachs U.S. Financial Services Conference

CORPORATE PARTICIPANTS

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

OTHER PARTICIPANTS

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Good morning, everybody. Welcome back. I'm very happy to have with us today, Charlie Lowrey, Chairman and CEO of Prudential Financial. I'm Yaron Kinar, the insurance analyst at Goldman. Just one housekeeping item, if you have any questions, please use the box at the bottom of your screen, so we can see those come through.

And with that, Charlie, thanks for joining us this morning.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Thanks for having me. Appreciate it very much.

QUESTION AND ANSWER SECTION

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Pleasure. Hopefully next year we do it on person. So, maybe we start with an opening question of what are some of the key messages that you've been communicating to investors as you approach year end.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Sure, happy to do that. Let me just take a couple minutes. I'll set the context and then we can take this wherever you'd like to go. We've been on a journey and it's been a journey of 12 or 18 months now and that journey has really three components. One is to become less equity market and less interest rate sensitive. The second is to become more efficient both from a cost perspective and from making it easier for clients and we can talk about that. And the third is to shift to higher growth market areas or higher growth areas such as PGIM or emerging markets or retail.

So, let me just expand on each of those for a second. The first is that we want to improve the quality of our earnings. And what you've seen us do especially this year is to pivot towards simpler, less interest rate and less equity market sensitive solutions. So for example, in single life GUL, we suspended that to focus on variable life and term, including the simply term on insurance.

Secondly, we discontinued sales of variable annuities with living benefits, so our HDI and TDI products, which are big selling products for us. But they didn't make sense in a lower for longer interest rate environment, nor did they – they had more interest rate and equity market sensitivity. So, we pivoted towards the buffered annuity product, FlexGuard was recreated this year. We also re-priced most of the products in our portfolio. So the first is really improving the quality of earnings. The second point is increasing the profitability of our businesses, right, expanding margins while also enhancing the customer experience, and you still see us have a couple of proof points there.

First is we completed the voluntary separation program we started last year and it was in four tranches, one last year and three this year, and we completed that successfully. And then secondly, we created a transformation office. And we stood up this office and we said if we want to do this, it can't be off a size somebody's desk. So, we took one of our very senior and most experienced business leaders and put them in charge and then resourced that office, because we wanted this to be a substantive program.

And year-to-date, we're ahead of pace for our cost savings program. We said in the third quarter that we're at \$135 million versus \$140 million which we expected for the full year. So we're doing okay there. And then we also said we are going to expand the target by 50% or an incremental \$250 million of annual benefits by the end of 2023. So, this program is a \$750 million program. So, it's a meaningful program in terms of cutting costs within Prudential.

The third point and the final point is really to continue to focus on generating long-term growth, which is ultimately what we want to do, and to do that through PGIM by expanding internationally and especially in the alternative space. Secondly, in the US businesses by expanding our addressable market, including through accessing customers through our workplace businesses through – for example, our group business, and new vehicles within

PGIM when you think about setting up the UCITS portfolios over – or essentially mutual fund portfolios in Europe and also through insurance.

And then, finally, in international, you've seen us broaden our product suite and we're doing that in Japan to increase our sales in Japan, but also rotate our earnings mix from developed into developing markets, really higher growth, emerging markets. And you saw us start that journey a couple of years ago, right, with the sale of Italy and then Poland, and now Korea this year, and the announcement of Taiwan, which we hope to complete next year.

And so, we're on a journey there to transform international as well. So, those are really the three points to become less equity market interest rate sensitive, to become more efficient, and to shift to higher growth areas. And that's the journey we're on, and that we started a while ago, and we'll continue to continue to make progress over the next few years.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Got it.

Q

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

So that's to sort of to provide you with the context. I hope that's helpful.

A

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

It's very helpful. I think you touched on a lot of points that I want to dig deeper into over the next half hour. We'll see how much we actually get to do. But maybe one place to start with, as this pivot away from more interest-sensitive products, capital-intensive products. So, you mentioned a couple of those initiatives. How do you think that impacts organic growth and net flows in 2021 as you're transitioning?

Q

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Well, I think it'll affect both, quite frankly, because when you think about it, we'll have less growth in some of those businesses as they get smaller as we go forward. And so, we'll – and the lower for longer interest rates will also affect our growth a little bit as well. So, both sides of that are going to affect growth.

A

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Okay. And do you think that the transition into less capital-intensive, less interest rate-sensitive products, like how long does it take to fill those to the point that you're going to see those maybe overcome the headwinds of pulling out of some of the older, more established products?

Q

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Well, for a while, the net flows could be less, right, because we have big books of business and so net flows are going to come down. We're going to hopefully fill that gap, if you will, with product re-pricings as well as new products such as the FlexGuard product over time. So, low rates are going to be an earnings headwind for a while

A

and we talked or we quantified that over time. And sales will move lower. What we hope to be able, as I said, to counteract that with some of the other strategic aspects that we're doing.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then if we focus specifically on the annuities segment and the decision to discontinue sales of HDI, the HDI suite of products, the living benefit, variable annuities, I'd like to spend a little bit more time on that specifically. It seems like a very big strategic shift for the company that for years has really seen HDI as an anchor product, I think. What led to that shift? And we've been in a low interest rate environment for a while now, clearly not as low as the last year, but we've been in that environment for some time. Maybe you can talk about the decision in 2020.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, we've been in a low interest rate environment, but not this low in interest rate environment. And at some point, the product just doesn't work. So, when you think about it, you have to have a confluence of events to occur, which is really the product has to work, new business has to work for both the customer and for the shareholder. And at some point, you can't write – you can't raise prices enough to have it where it would work for the shareholder, but it just doesn't work for the customer, right? And so, what would work for the customer doesn't work for the shareholders. So, at some point, you just have to say, you know what, this product doesn't work. We have to redesign. We have to redesign. We have to come up with a new product.

And we came to that conclusion for new business for HDI and PDA – PDI when interest rates are sort of sub-1%, right? They're just – they're lower than any of us ever contemplate. Now, the good news is that the inforce business is a higher ROE business. It's well capitalized and well hedged. So, we think there is value in that block of business, but new business going forward, we needed to really rethink in the current interest rate environment.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And I guess if I consider the strategic shift on the one hand, the seemingly growing availability of reinsurance capacity looking to transact in annuities and other valuations that private markets are willing to sign annuity blocks that seem to be higher than what the public market is willing to sign. If I put all of that together, is there a growing appetite to transact there on your end?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah, I think there is a consistent appetite. We've mentioned for a long time that we would consider strategic opportunities which could include reinsurance for the sale of a portion of a business, if you will, or a block of business. But it has to make sense from a shareholders' perspective, right? So, if we can find buyers and it makes sense from a shareholders' perspective, we would consider a transaction as a way to accelerate the changes in business mix. But it really has to make sense for a shareholders' perspective.

And it can do that in a couple of ways. One is that you could take a – you could do a substantial transaction that would afford you the capital to be able to change that business mix. And the other is to say, okay, we can do a transaction that would change the perception of the company such that you get an increase in a multiple. So, we'll look at this, but always with the eye towards shareholders and creating real economic value over time. And so

we're going to be very careful about what we do and how we do it. But we will look at these transactions if chances arise.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then, if we look at the shift to less capital-intensive businesses, sales in those product lines, beyond the launch of new products, what else can you do maybe on the distribution side to accelerate the growth in those products?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. Well, first of all, we continue to explore new solutions. So, like FlexGuard, like some of the other things we're doing with less rate sensitivity, but that provides investment in income protection through existing and new distribution channels. So, we'll think about doing that and supplying those products to those new channels. But the other is we have a multi-channel distribution, right? We have crew advisors. We have our large third party distribution network that's been successful in the rollout of some of these new products. So, we're going to take full advantage of what we think is a competitive advantage and that is a multi-channel distribution, whether it's B2C, whether it's B2B, whether it's – whatever it turns out to be, we have the ability to reach a lot of customers through a variety of channels.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And as I think of the discontinuation of HDI, is there going to be some impact to PGIM there as well? Maybe you can talk about what percentage of HDI's account values are actually managed by PGIM and the broader impact that we could see there?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

So I think the answer, it will affect over time, right? The majority of our HDI accounts are managed by PGIM. So there's a lot that's managed by PGIM. But the discontinuation of that block of the HDI block, I think, will be gradually offset by new protected outcome offerings. So what we hope is that as the HDI block comes down over time, the new products that we develop which will have aspects of it will be managed by PGIM will kind of offset that. It may not be exact. There may be one that's higher or lower than the other, but that's our plan.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And maybe one more on HDI here and the pivot and the buffered annuities, what's the return profile of the two products? What would you expect to see in the annuity segment as you shift into the buffered annuity?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, what I can say is that the buffered annuity is meeting our hurdle rates, right? We created the product within this environment so that it is meeting our hurdle rates. It is clear that the old HDI product was not meeting our hurdle rates in this marketplace, just in the lower for longer it wasn't, which is one of the reasons we stopped.

We've always said that we won't sell products that's below our hurdle rates. And that's just we've re-priced almost the entire portfolio with this market across the world. So, the new product is going to meet or is meeting are our expectations, but the whole reasons why we stopped HDI was because it wasn't. So, again, the good news is the in-force of HDI is well-hedged, well-managed, and has the appropriate amount of capital associated with it. So, the book is fine. The old book is fine. It was the new business that was challenged in this environment.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Okay. And then so I think you've called out some earnings headwinds in the annuities side and you've also called out maybe some near-term earnings headwinds in Gibraltar. Maybe you can talk about the drivers for that?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Yeah. There are three or four drivers for that, right? So, you saw us years ago in Japan lighten up on yen product, right? We stopped selling the yen single premium product and we shifted more to US dollar product. And obviously, the lower interest rates have affected the profitability of that business. And we've re-priced it, we've done different things, but it's affected the profitability of the business. And as a result, we were selling less of it.

Secondly, given the in-force block of Gibraltar's business is older, it's running off slightly faster. So, that's the second point. Third point is sales levels have come off somewhat partly because of pandemic, partly because of some of the pricing increases we've put into place. So, that's linked to the first point. So, that's the third point. And then the fourth is there were some costs associated with our distribution during the global pandemic. And so, that depressed earnings a little bit. So, it's a combination of really those four things that have hurt Gibraltar's earnings.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Got it. And then if I try to connect all of this, so when do you think the headwinds in the annuities and Gibraltar segments inflect? And do you think that the growth that you have in all the other segments today where you – I want to spend a little more time on those soon, but do you think that those are enough to offset those headwinds in the near term?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Well, we certainly hope so in the longer term. In the near term, there will be a gradual decline as some of these in-force blocks roll off or we do transactions. We hope that the strategy we have in place and the re-pricing and the product launches we do are going to offset that. Now, are they going to be – is it going to be immediate? Probably not. But that is certainly our expectation over the longer term as we go through this journey, right? It would be wonderful if you could line everything up perfectly. You can't do that. But our hope and expectations is that we will transform this company into what we talked about in the beginning, which is less capital intensive, less market sensitive and higher growth.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Got it. So, speaking of growth, I'd like to shift gears a little bit to the retirement business. And maybe to start with the SECURE Act, now probably something I should have asked you at the beginning of the year, but I wasn't covering Prudential at the beginning of the year, but what opportunity does the SECURE Act present for Prudential's retirement business?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. I have to tell you, we have a lot of energy around this, because we were one of the primary firms advocating for this in Washington. It's something that we believe in a lot. We were thrilled that it was passed because it aligns with our mission of advancing retirement income security for the workplace, right? It just makes sense to do this.

So, we're excited about the opportunities it's going to create for the industry and potentially for us, but we're as excited for what it does for quite frankly smaller businesses, which is why we advocated for this in the first place. We just think it makes sense. So, we think it will – it bodes well for the future, but for everybody. This was a great act. This was a good piece of legislation.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Can you maybe talk about what portion of the retirement business comes from small businesses? What's the TAM opportunity – or where the TAM is there for PRU?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. You mean what portion of our business is all businesses or what portion in general?

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

So, both, actually. So, both, what is your current penetration, if you will, and where is the potential opportunity?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, we mainly deal in national accounts. We deal with larger organizations. But where we think the opportunity is the aggregation of the smaller businesses into larger segments that then can benefit from institutional pricing. And that's why we were so excited about it was the multiemployer programs that are out there, and then the ability to put income annuities into plans and other things. It's really taking smaller businesses and aggregating them to take advantage of the institutional framework that's out there. And so, that's why we're excited about it and we think we could expand our business accordingly by virtue of the aggregation of some of the smaller businesses.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then, maybe another one on retirement, pension risk transfers, I'm sure you've done one or two questions on those in the past. What's the pipeline as we head into a year-end and where do you see the competitive landscape as well here?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Sure. The demand is much better than we thought it would be this year. And I'll say, I'll put myself in that category, right? So, at the beginning of the year, we – last year we did about – the industry did about \$30 billion. This year pre-COVID, we thought it'd do about \$20 billion. When COVID came along, we said, gosh, the wheels

have kind of fallen off the bus. We have no idea what's going to happen. And then the bottom fell out of the equity market, right? So then you say, gosh, nothing is going to happen. But the equity market snapped back. And so what companies are finding now is that there's much less of a funding gap than there was before. In fact, there's very little funding gap.

The second thing about the equity market fall in March and then the recovery is they looked into the UCITS and they said, oh my gosh, volatility really does happen and look where we were on March 23. We're in a very bad place. Now, we've kind of come out of that. So that makes companies want to transact even more. So, then they say, okay, well, we still have this little funding gap. How are we going to fix that? Well, the interest rates are really low. And so what we're finding is that companies can borrow more easily and more cheaply or more inexpensively to fill that funding gap.

And finally, to the extent that you have retirees with – lots of retirees with low balances, the PBGC fees are killing, because PBGC keeps increasing their fees and it's done on a per person basis, not on a per account basis, not on total AUM. And so, to the extent you have lots of employees with little balances, you're just getting crushed, so you want to get that off your balance sheet. So there are lots of reasons for which companies are coming back into the market, companies want to transact. So we see the pipeline actually quite strong.

On the other hand, so that's the demand, on the supply side, we see more competition. There are more companies coming at the business. They have more capital. So quite frankly, it's harder to win deals. And what we've said before and we'll see now and we say with all our products that we're going to maintain our disciplined approach to pricing because pricing is getting more competitive. So we'll see how many deals we can win. But the good news is that there is more demand, but there's also more supply. So that's kind of the dynamics we see in the marketplace.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Makes sense. And then maybe one final one on retirement, you talked a little bit about the modest compression that we've been seeing in the return on assets there and what actions the company may be taking to offset those?

Charles F. Lowrey

*Chairman & Chief
Executive Officer,
Prudential Financial, Inc.*

A

Yeah. So, in the retirement business, we don't really think about the business in terms of ROAs, but the low interest rates, to your point, the low interest rates have absolutely affected the net spread income. So we can lower crediting rates to a certain extent in our full service business, but they're subject to minimum rate guarantees. So it has affected the business.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then if we shift gears to PGIM, maybe start with a broad question there, I think he touched on a couple of those – a couple of the points I'm going to ask about in your opening comments, but maybe we can drill a little deeper. So what do you see as the greatest opportunities and maybe some of your primary concerns for PGIM in this market?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, I think that the greatest opportunities are really taking advantage of our – the way in which we do business. We think we have a pretty good mousetrap here with a multi-manager model. And we think the opportunities for this business would be to expand on that through programmatic M&A to a certain extent, so bolt-ons, if you will, especially in the alternatives category. So, we want to continue. We have a really good alternatives business, whether it's the fixed income, the real estate, the equities. We have a lot of different alternative businesses. And we think we can really expand on that.

The second would be product creation. We've been consistent in expanding our product line to a variety of different products, whether it's sort of some of the mainstream products, whether it's global products, whether it's in alternatives. And the third would be geographic expansion. So, you've seen us expand further into Japan. You've seen us expand into Europe in a very sort of prudent way as we go forward in programmatic way, we'll continue to do that.

The one last thing is we sort of touched on the beginning, but we're also expanding the vehicle by which you can invest in these. So, whether it's creating the mutual fund platform, the ETF, the UCITS, we're expanding those vehicles. So, we want to be vehicle-agnostic. You want to invest with us in ETFs, you can do that. You want to invest in mutual funds, you can do that, too. So, we're going to continue to expand there as well. So, those are the ways we'll continue both the inorganic and the organic expansion.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Understood. I want to touch on the regulatory and then maybe accounting environment as well and its potential impact. So, first, we are going to have a new administration come January. Do you expect initiatives that, that would limit compensation practices or implement strict robust interest standards to be revived under the new administration? And if so, what ramifications would you expect that to have on Prudential's business?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. Let me answer that in a general way. It may not be entirely satisfactory to you, but let me just make a couple of comments. And that is I think it's premature to comment or speculate about the possible regulatory changes that may occur or may not occur under a new administration. But what I can say and what we've done is we'll maintain an active presence in the public policy arena and express our viewpoints as we have and stay informed about the direction of the policies because we have a long history of adapting to regulatory changes and using them as an opportunity to continue to innovate. I kind of joke with people, we're 145 years old, right? We survived two world wars, one-and-a-half pandemics, The Great Recession, The Great Depression, and 36 presidential cycles. And so, we're going to survive this one.

So, the last comment I'll make is that we're for regulation. We just want it to be good regulation for the industry. And so, we will continue as we have in the past to advocate for prudent, good regulation. We think that helps consumers. We think it helps the industry. And we want that. But we want it to be prudent and we want it to be beneficial to both consumers and the industry. So, we'll be big advocates. We'll have our voice down there. And we'll hopefully work with the new administration as we have with past administrations.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Understood. And then my other question on the regulatory or more accounting front, I guess, is on LDTI or the change in long duration contract accounting. Which businesses – not asking for quantification because clearly, I

think you're probably still studying that, but maybe you can talk more broadly about which businesses at PRU you think would be most impacted by the change?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. I think obviously by the nature of LDTI, [ph] you're doing businesses for (00:27:43) long duration, so we write insurance policies, some of the annuities. These will be affected in one way or the other. We're still in the process of re-evaluating the onetime and the ongoing impacts of the business. So, as you said, it's too early to provide details, but we are looking at it, we are thinking about it and we're gearing up for it.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then maybe shifting gears from the long duration product, one of the shorter tail businesses you have Assurance IQ. I think you just marked the one year anniversary this quarter of the acquisition. Maybe first the targets that were set for 2020, are those still intact or do you expect to achieve those?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. We don't plan to update the targets as originally provided. We decided not to do that. But what I can say is we're pleased with the business. We're pleased that we acquired the capabilities and the business model that's not sensitive to the interest rates and equity markets. It's one of the reasons why we did it in the first place. And so we're going to continue to work with them. They've added a lot of value to us. We hopefully have added value to them as we go forward. And we'll continue to report out to you.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

(

Okay. And when I think about the Assurance IQ acquisition, we can look at it in a very myopic sense of looking at the earnings and revenues coming in through Assurance IQ. I think we can also look at it from a broader perspective of thinking about potentially some of the digitalization and investments in distribution that the company may have otherwise had to invest organically that you were now able to achieve through this acquisition. Is that a fair way of thinking about it? Does it bring a more holistic – does it have a more holistic impact on the overall business or maybe on the wellness initiative?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. I mean you raised an interesting point because when you think about one of these, it's always buy versus build, right, because we wanted these capabilities, we want to provide digital distribution to further expand our addressable market. And the question is could we build this? And there are situation in the past where we did build it or is it more expeditious and better to buy it. And in this case, we thought it was better to buy it. So, it did significantly accelerate our financial wellness strategy through direct-to-consumer channel that really is allowing us to reach to expand the addressable markets or reach the underserved mass market with solutions.

And it also provides us with really deep technology capabilities that we, to your point, that we would otherwise needed to fill. So, whether that's the segmentation of customers, whether it is data analysis, there are lots of things, again, that we are learning from them that we can apply to our other businesses both domestically and internationally. And then hopefully there are lots of things that we are able to give to them. And so there's been a

really good dialogue back and forth over the past year. Now, again, it's only been a year. And so this is – you have to think out years ahead as to the full potential of this. But the knowledge transfer has been really good so far.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Great. Charlie, in your opening comments, you talked about increasing the expensive targets by 50% this last quarter to \$750 million. Can you maybe offer additional color on where those new or additional savings were identified?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Sure. I think in something like this, you come up with what you think is a rational target. You set up the organization and then they begin to find some, right, and then they begin to find more stuff and success begets success. So, what we're really finding is that there are additional cost savings that are coming from a combination of programs that were in place because we found actually there's more there, plus new initiatives that people have found as they have begun to go through this.

So, as an example of some of the additional cost saves, the expansion of the use of technology, it's optimizing our real estate footprint as we think through the future of work, it's the benefit from a more efficient workforce that we're finding. So, there are all sorts of ways – there are ways to do this. And other examples or specific examples would be the combining of simple things like combining of client service center. So, you take the group and the individual life and the annuities and you combine them all to create one best-in-class insurance set.

It's better for customers because they only have one place they need to call, but it's also far more efficient. We're looking at process re-engineering so better sort of end-to-end processing where we don't have as much manual labor. We can do things much faster, that's better for clients and it's cheaper for us. So, we're thinking through other automation. Can we get approvals from clients, from our institutional clients, to send out e-mails to people, so we don't have to send out letters. And some of these is good, old-fashioned rolling up your sleeves and doing cost saves. Others of it is thinking through what the future of work may actually provide, and how we're going to deal with that, and cost efficiencies coming out of that. So, it's a whole variety of things, but both coming from doing more with what we thought and finding new things.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And then maybe we can spend the last couple of minutes that we have, just talking about capital generation deployment. First, what do you expect out of year-end cash flow testing in light of the low interest rate environment?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, overall, we're not expecting the rate decline to have a significant impact on AAT reserves this year. But as always, we're finalizing our process right now and we'll be able to give results early next year. But we don't expect it to be material.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Q

Okay. And in terms of your expectations for statutory earnings and excess drawdowns in the near and intermediate term, how are you thinking of those?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

We don't provide a forecast for our statutory results, but we do have a history of generating statutory earnings and distributing capital to the holding company, if you will. And we just start distributions on any number of factors, including how credit develops. So, we're going to have to see how that develops over time. But what I can say is we're prepared to protect targeted regulatory capital levels in our entities, in these entities, as we have well-developed and seasoned risk and capital and liquidity framework. So, those are all in place. And the other thing I'll say is that Prudential is – and its subsidiaries continue to hold capital that exceed AA financial strength level and so that's where we're holding capital.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Understood. Well, Charlie, I think we're out of time. Thank you so much for...

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Already?

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Yeah. Yes, indeed, it flies when you're having fun.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

It does indeed.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

I do hope to do this again hopefully next time and we'll be in person. And I do want to thank you for your time with us today.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

No. Thank you very much. And wish you a very happy holiday, and let's hope that 2021 affords us the opportunity to be together. So, thank you.

Yaron Kinar

Analyst, Goldman Sachs & Co. LLC

Thank you. Take care.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.