CREDO WEALTH

Ensuring Success

The surprise announcement last week that Prudential's CEO Tidjane Thiam would be stepping down after six years at the helm came as a shock to many. No one can doubt that "it is better to be vaguely right than exactly wrong" and throughout his stewardship, Mr Thiam's strategy proved "vaguely right". His shareholders did not always agree, however, blocking his £23.5bn tilt at acquiring Asian insurer AIA in 2010. With the benefit of hindsight, the ill-fated venture made a lot of sense: for instance, AIA's market capitalisation has nearly doubled in the subsequent five years. For his successor, Prudential's future hinges on holding fast to Mr Thiam's proven model.

Mr Thiam is a remarkable man. Born the youngest of seven, his path to the corporate throne has not always been easy. After working briefly as a Cabinet minister in his native Ivory Coast, his refusal to cooperate with the military coup in 1999 led to him being placed under house arrest before he eventually fled the country. For six months, he had nothing. However, after working at McKinsey and Aviva he moved to Prudential in 2008 as finance director, before his accession to CEO the following year.

Less than a year into the job, Mr Thiam initiated his controversial bid for AIA which, for a company as steeped in history as Prudential, would have proven transformative: a doubling in business size and a shift that would have placed almost 90% of operations in Asia. Investors balked and, with the deal nearing completion, Prudential was left to foot a £450m bill. At the time denounced as quixotic, Mr Thiam is now reputed to be one of the most capable executives in the world. Despite the failure of the AIA deal, he has turned the company towards Asia's growing middle class, carving a reputation as a shrewd emerging markets strategist, all the while delivering an exceptional shareholder return of 230% during his tenure.

In lieu of a transformative AIA deal, Mr Thiam's approach has been incremental: looking to extend Prudential's reach to countries with growing GDP, favourable demographics, and functional political institutions. So far, this has encompassed Asia, accompanied by tentative ventures into Africa. This strategy has proved enormously successful: over the last year operating profits from the Asian life insurance and asset management business have risen by 17%, while the full year dividend has also been raised by 10%.

Under his successor, tipped to be Mike Wells (the head of the insurer's US arm, Jackson National Life), the focus on emerging markets is unlikely to be changed. While Prudential is an enviable inheritance, past successes are as much a challenge as they are a boon – to paraphrase Hyman Minksy, an economist, "stability breeds instability". For instance, while the company places a greater reliance on Asian sales, the market's propensity to repurchase has faced little scrutiny. More interestingly, while Prudential's shareholder return has been largely predicated on Asian expansion, over the past two years it has been Jackson National Life that has led the growth in operating profits. Assuming Mr Thiam's involvement in his successor's appointment, Mike Wells could be a final "exactly right" decision to cap an already exceptional stewardship.