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INTERNATIONAL DIVERSIFICATION BY LIFE INSURANCE COMPANIES

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o Panelists will give the perspective of companies in the:
  - United States
  - Canada
  - Australia
  - Japan

MR. OWEN A. REED: This is a session to discuss international diversification by life insurance companies, in particular the opportunities versus the risk from the strategic viewpoint. We thought that it would be very interesting if we could have, in addition to the perspective of North American companies, the perspective of a large Australian company and a large Japanese company, both of which have been known to do interesting things on the international scene. I was tickled pink to be able to get Ian Salmon from Australian Mutual Provident (AMP) in Australia to join us. In Australia, the AMP is the equivalent of the Prudential of America in stature. From Japan we have Taira Suekane who is with Dai-ichi, which is the second largest life insurer in Japan.

The North American companies are represented by a young version of Bill Poortvliet; his name is Bill Kerrigan. Bill Poortvliet was to have delivered a talk, but he was inadvertently sidetracked to other duties, and Bill Kerrigan will kindly make the presentation in his stead. We also have Sid Jackson, recently retired CEO of Manufacturer's Life, which is, I think, a fairly well-known international life insurance company and financial institution.

I work for Sun Life of Canada. We've been an international insurer for, I guess, 120 years or so. And, our recently published vision of the 1990s, an internal document for us, reads roughly as follows, in respect to international scope:

> The major focus of Sun Life's operations is in Canada, the United States, Britain, Ireland, the Philippines, Hong Kong, and Bermuda. Sun Life aims to have a viable and expanding market presence in all the countries in which it operates. Business opportunities that arise in other countries, which are complementary to the major focus of operations, will be investigated.

* Mr. Suekane, not a member of the Society, is Vice President of The Dai-ichi Life Company in New York, New York.

> Acquisitions will be considered only if they meet criteria such as the synergy of the product line, distribution system, and geographic location with Sun Life, the quality of management, the quality of assets, and the potential for a satisfactory rate of return over time.

Like many companies, during 1989 I guess we must have received, from investment bankers, propositions regarding purchases at the rate of something like one a month; some months, there were even two or three. In almost every instance, there was some knock against it -- the synergy wasn't there, the prospective rate of return wasn't there, and so forth. It seems to me appropriate to have one of our visitors Ian Salmon lead off. I'd like to say that in Ian's company, they have, in effect, two Chief Operating Officers. One is responsible for all the domestic operations in Australia. The other, Ian, is responsible for all the international operations. Ian is an actuary, of course, and he is a member of the Society by virtue of being an ASA. He's no stranger to North American shores, and very likely a number of you know him.

MR. IAN L. SALMON: Australian life insurance companies are basically very contained. We sit in a tiny corner of the Pacific, and we have a long way to go before we get to anywhere. The other day we flew from London to Miami, which I think took about eight hours. The nearest spot that we can get to from Sydney is about eight hours away, and that's Singapore. And so, when we talk about internationalization, we talk about things which are a long way away.

I'll now give you a perspective as to why Australian life insurance companies are now thinking of becoming more international than we've ever been before. The top 10 companies actually write 85% of the business. The top two write approximately 50%, just over 50% in all. In terms of size in Australia, we might look at it this way: If the top company, the second company, and the third company are represented by three buildings, their sizes diminish very quickly. In terms of wealth, (that is the capital which is available for use for development) the ratio between the companies is even greater. The size of our marketplace is interesting. We have 17 million people in Australia and we count New Zealand when it suits us, so we have a population of about 21 million to deal with. Not a very large population. We basically deal in a handful of products -- life insurance, pension schemes, annuity trusts.

The market is changing. The market is changing quite quickly in several respects. First and very importantly, it's changing as the banks are starting to assert themselves; they are now working their way into the normal life insurance fields. They've worked their way into the pensions field, and undoubtedly they'll work their way progressively further into the life insurance field. I think the small companies in Australia, and I would have to rank 30 of them as small, will largely fall by the wayside over the years ahead. The scope for market growth of the large companies, as you could probably judge, is not very great. If you've got 30% or more of the market, as the company I work with has, it's very difficult to grow much more -- 40% maybe. Then you place yourself in the position of government interference. Thirty percent or thereabouts is probably not far away from the reality.

In the last few years, the two largest companies, with about 50% of the total business, have really embarked upon a strong program of internationalizing, largely because they see the home base limited. Also, when we're looking at things from a long way away, as we are, we are seeing that the insurance industry of the future, in fact, the world of the future, is basically going to be a global operation, where the scope for nationalism will be slowly diminishing. It started from that viewpoint when my company, two, three or four years ago was looking very seriously at the matter of internationalization.

I think now I should switch from the general to the particular, and talk about the AMP, and why we decided to internationalize. Well, first, we decided to internationalize in order to capitalize on our assets. Now, our assets are the people, the knowledge and the capital we've got. We wanted to apply that to worldwide business. We wanted to build a larger asset base for the benefit of the Australian and the New Zealand policyholders, who are, in fact, our owners, because we are a mutual company. We wanted to become a significant player in the insurance and the long-term investment scene on a broad and global basis. So then we had to decide where we'd go. Well, the first place, and the simplest place for us to go was Europe -- first, to build significantly in the U.K. We'd had an operation in the U.K. for many years. It was minuscule -- indeed, it was irrelevant until we decided to build on it. Suddenly we found it useful, because we suddenly realized we knew the market. We had some people we could use. And so our first exercise was to develop substantially in the U.K. And now we are looking to move wider than that, and throughout Europe we're certainly looking at places like Germany, France, (not Spain so much) with a view to seeing what, if anything, we can do in those territories. And the next place we're looking at is North America. You might say why? Why North America? Look at all the problems; we've been hearing about them for the last two or three days. But North America represents an opportunity. And we'd be fools if we didn't look very seriously at the North American opportunities. And then, finally, Asia. A mysterious place. Those that are familiar with it will, I'm sure, agree with me. It is a place which is very different. I've moved from territory to territory; every territory has its own customs and those customs are quite different from the ones that we know.

So, how do we go about it? Well, first, our belief at this stage is that wherever possible we should join up with existing operations. And our first attempt was by way of a mutual merger. We took on a company called the London Life. Not the London Life that you know over here in North America -- London Life of Britain. It was formed in 1806, a few months after the battle of Trafalgar; it survived until a couple of years ago, fell on somewhat hard times, was a candidate for merger, and gives us excellent opportunity in the upper end of the British market. Our second, and much more critical attempt was by taking over a proprietary (i.e., stock) company. Last year, we made the largest hostile bid (largest successful hostile bid, I've now gathered) in the history of the United Kingdom in the financial arena. We took over a company called Pearl, which is well over 100 years old and is a well represented, household name. It's market doesn't overlap with the London Life's, it has an excellent position, excellent reputation and that's something that we can really build on well, and probably use in Europe. Generally, as we look around, we're seeking to join with reputable, well-established insurers, hopefully with reasonable market shares, so that we start off with a reasonable critical mass, rather than having to build it up. We will, if we need to, go for greenfields operations. I'm sure in some territories that will be necessary. But, where possible, we'll seek to join with others and even perhaps with joint ventures, although we don't favor those. We incline to the view that they only last a limited period of time.

Next, of course, is when should we go to a place? The only answer we can give to that is when the opportunities and the resources come together. And I guess that's why we have to keep our eyes open to a wide span of places all of the time, rather than just focus completely on one place.

There are, of course, limitations. And the first limitation, the critical one or the one which is familiar to everybody in this part of the world, is the limitation of capital. Now, to a large extent, we've been very fortunate. We do not have the same limitations in capital terms as most companies in North America. And, indeed, in one sense, we've actually given ourselves a great step forward, because in our acquisition of Pearl, we acquired a company which was capital rich, and I mean, very rich. We can get at that capital and use it; it largely belongs to the policyholders, but we can still use it. So, capital, to us, is not the critical issue. The next limitation is manpower. We don't carry a number of first elevens, or whatever -- that's a cricketing term -- we don't carry several management teams of equal quality. We have some spare -- we always have, but we can use that up very quickly. And so we find that that will be, if anything, the most important restraining factor on what we do. The third limitation is regulations, and I guess the biggest limitation there is largely the time it takes, rather than anything else. You can generally overcome regulations if you work at it.

Let's move away from AMP. As for the rest of the Australian companies, I think apart from my own company and the number two company, there is one other company which has a presence of any significance offshore, and quite a good presence. That company rates number four at the moment. The rest of them, I don't think would rank as competitors in an international field. They're just not large enough. And, in fact, I believe there's no company large enough in New Zealand, either. So, there isn't a great deal of scope for companies, other than the two main ones, to develop substantially overseas. What there is a scope for, though, is those companies, the smaller companies, to become part of groups which are bigger, and which originate outside. And we have seen a bit of that. We saw one of our companies, a medium-size company, taken over by National Nederlanden in 1987. And more recently, Aetna's Australian and New Zealand operations were taken over by the Australian arm of the United Kingdom's Prudential. This is all part of the internationalization scene as we see it.

As time goes on, I think we are hoping that we will no longer be dependent solely on our 21 million population, but we will become a much more significant international player, and consequently, responsive to international economic and population changes.

MR. REED: When I heard of AMP acquiring Pearl, one of the first things I did was to get Pearl's statutory return to see how much surplus it had, and I was astounded to find it had I think a 72% surplus ratio, which of course is astronomical by North American standards. I hope that the AMP isn't working that surplus down too much.

Our next speaker is Bill Kerrigan. Bill joined the Metropolitan's international operation in 1989, and he is the Chief Financial Officer for that international operation.

INTERNATIONAL DIVERSIFICATION BY LIFE INSURANCE COMPANIES

MR. WILLIAM D. KERRIGAN: It is a pleasure to be here to just share with you some of the ideas concerning Metropolitan Life's strategy for international diversification. My principal objective today will be to go into some of the factors which influence the thinking and plans of Met Life, and I daresay some other companies which are considering the international markets. Also, I'll share with you some of our actual experience, in the hope it might be helpful to you as you do your own international planning.

During the past 20 years, the conventional boundaries of financial services have become blurred. In a general sense, we have seen the traditional concept and role of insurance broadened a great deal. Insurance products no longer involve simply an assumption of risk, but have become more focused on savings, investment, and retirement needs. This process of change has not been limited just to us in the U.S. market; it's taking place in the developed markets throughout the world. At the same time that the appeal of the insurance product is broadening, the world is experiencing dramatic economic and political changes, those that we've heard about many times during Society meetings. And these have multiplied our opportunities to do business overseas. The major ones include the removal of obstacles to trade in the European Community (EC), the opening of some important national markets, and the potential development of eastern European markets. These are just a few of the catalysts which are reshaping the development of the international insurance area.

To share with you Met Life's approach to this changing global environment, I believe it's important to first consider some of the history and factors which have shaped our company's current international operations. Our first international venture dates back 118 years, when we began business in Canada. We are the largest foreign life insurer in Canada, and have about 8% of the life market in that country. By contrast, in other parts of the world we're relatively newcomers. In the U.K., for example, we've been in business about five years, although during this time our assets have more than doubled. Our Korean and Taiwan operations got under way just last year, and already we have developed our own agency forces. Right now we have about 200 agents in Taiwan and over 800 agents in Korea. Spain is also a new operation for us, and I'll take a minute or two and tell you a bit about it -- this is just kind of an abbreviated case history.

Spain represented our second move into Europe, following our acquisition of our U.K. company in 1985. We began our general research in Spain in 1986, and concluded that Spain seemed to offer us promise, largely because its insurance market was undeveloped, particularly in relation to its economy. And, moreover, its economy and the insurance sector appear to be growing steadily. Also, Spain's admission to the EC and its relative political and economic stability were important factors. At that time, Bill Poortvliet was our company's Chief Financial Officer. He and his family took up residence in Spain in early 1987 in order to determine up close whether there really was an attractive opportunity for Metropolitan in that part of the world. By July 1987, we had decided to go ahead in Spain. We'd also ruled out making an acquisition or starting alone. We did agree to form a joint venture with Banco Santander, one of Spain's five largest banks, and we entered the insurance and retirement savings market with them. By 1988, we had created Seguros Genesis, which is our life insurance company. By the time we received our license, we had already built our own administration system. So, we were ready to begin some market experiments, which we undertook in a few of the bank's branches in some major cities in early 1988. And late in 1988 we extended our testing throughout the Catalina region. In 1989 we went nationwide, and began selling individual insurance and retirement savings products through 1,200 of the bank's branches in all areas of Spain. We currently are building our own agency force to complement that bank distribution channel. Our general philosophy in Spain, as in the other countries, is to build a Spanish company using Spanish executives, a company which the Spanish people can see as a strong, permanent, and indigenous entity. In short, a company to which they are willing to entrust their family's insurance and retirement savings. So far we're very satisfied with the results in Spain, as we are with all five of our international operations.

A few of the volume measures of our international business as they stood at the end of 1989 are as follows: we have about 16 billion of assets under management, which is about 12% of Met Life's total assets under management. Total sales of insurance and retirement savings products were .75 of a billion dollars in 1989, and premium income was 1.5 billion. So we have something that's significant in size, but is also growing rapidly -- more rapidly than the rest of Metropolitan in the U.S.

Now, let me tell you what I can about Met's approach to the marketplace, about how we evaluate the prospects and how we choose to enter a country. We don't have a rigid formula for determining which countries to enter. Decisions whether to enter a country, and if so, how, are made for each situation independently, taking into account the economic, political, regulatory and insurance environment. In fact, we've utilized five different modes for entry in our five international ventures. In Canada, we branched our domestic life operations. In the U.K., we acquired an existing mid-sized life insurance company. In Spain, as we discussed, we formed a 50/50 joint partnership with a large Spanish bank. In Korea, we formed a joint venture, where we hold the majority interest. And we branched one of our stock subsidiaries in Taiwan. Basically, it comes down to looking at each country and deciding the right way to enter there. We don't have a magic formula; we don't have one uniform way of entering the country.

Now, our rationale -- why we are diversifying internationally -- rests in our -- Metropolitan Life's -- overall corporate philosophy. First, we're a market driven company. We look for markets whose needs and wants can be fulfilled by Metropolitan and which hold great potential. We're also looking for those opportunities that fit our background and experience, such as our core businesses, life insurance and retirement savings. What the market wants and needs has to tie in to what we know how to deliver. Basically, we bring our expertise in product development, marketing, systems and underwriting to a new market, and we look for opportunities that complement our knowledge. In this way we seek to add value as well as to earn a good return. As you can see, each factor builds upon the other. If we can develop the needed products and services for a market, there's a mutual benefit. Also, our research must indicate that there's a sufficient potential for good and careful growth within a reasonable period of time. We also look for a reasonably stable political and economic environment. We simply can't afford to direct our time and our resources to operations that will not be both substantial and important. As Ian mentioned, those resources are critical, and we also find that the human resource is probably one of the things that limits most of the things we can do, because the people you have to have starting these operations or working these operations have to be some of your topnotch people, because it's a difficult area to work in.

Our general strategy for international expansion is one of selective and opportunistic expansion. We're not out to drill so many oil wells, that if 10 are dry and one comes in, we're happy. We seek to be successful in every market we enter, and we hope to remain there for a long period of time.

The last general point I will make is perhaps the most significant and perhaps the most obvious of all. We target markets in which we expect to be profitable. Our reason for being there is not to plant flags, but to bring back profits. Patience is a virtue in beginning a new endeavor. However, because foreign markets are affected by factors that are often difficult to control, we're not willing to wait forever for the profits. And, in fact, the internal financial goals we've set for our foreign operations are often more demanding than those that we have established or might establish for some of our domestic operations.

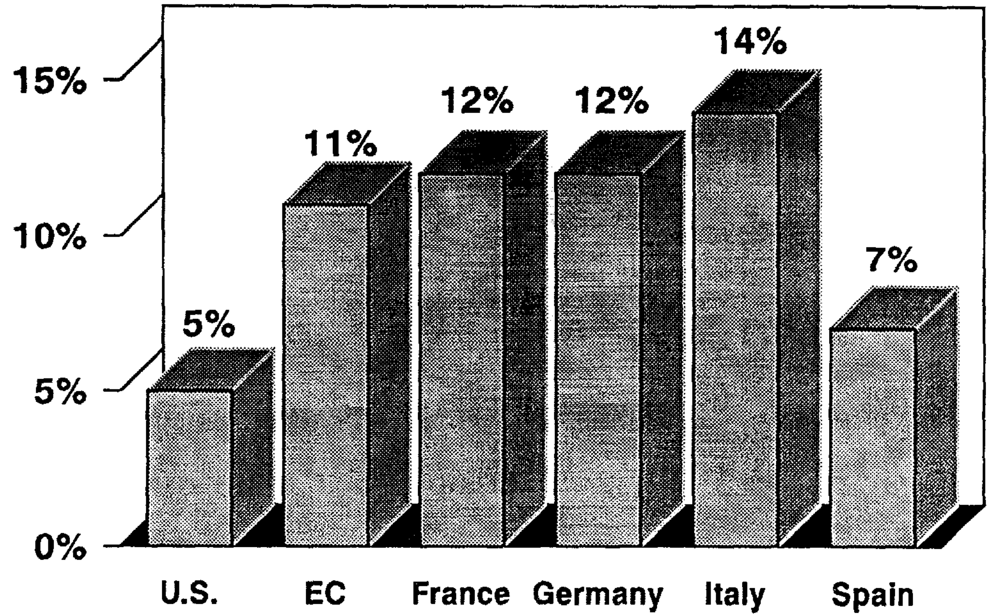
Now I'd just like to identify some of the factors that we consider in looking at our expansion in retirement and savings. I'll look at some of the European communities as examples -- those which we believe hold great potential. Met Life's interest in Europe stems primarily from our demographic and economic evaluation. Once harmonized, the 12 member nations of the EC will represent the world's most populous free market, with 325 million people -- an important market indeed. As you would expect, sales of financial services are generally related to gross domestic product and its growth. The EC has about the level of the U.S., about $5 trillion. In 1989, real GDP growth in the EC was 3.5% versus 2.5% in the U.S.

Savings rates are another major factor which help measure the potential for life insurance, especially for retirement savings and asset accumulation products. Chart 1 speaks for itself. We carefully study the savings rate in a country before we consider entering that market. If two countries have equal wealth, the potential for life insurance and retirement savings sales will generally be greater in the country where the market is less saturated, as indicated by life insurance premiums per capita. Chart 2 shows Spain is on the low side, Italy perhaps the lowest. There's a relatively highly developed market in the U.S. and Germany. And when we look at these markets, we look not only for potential, but also for evidence that growth has already begun. As Chart 3 shows, there are some healthy growth rates. The U.S. rate might seem a bit high to you at 12%, but we're using the conventional European definition of life insurance, which includes pensions as well as group and individual life insurance.

Of course, there are many other factors, such as tax legislation, regulation, and the extent and type of social programs, which concern us as we look beyond our borders. So we hope you consider the examples that I've shown here as merely illustrative. As you can see, there are some very attractive markets in Europe. And while these markets present us with new and potentially profitable opportunities, they also involve risks. In managing the risks of an international diversification, we've developed some general guidelines,

PANEL DISCUSSION
CHART 1

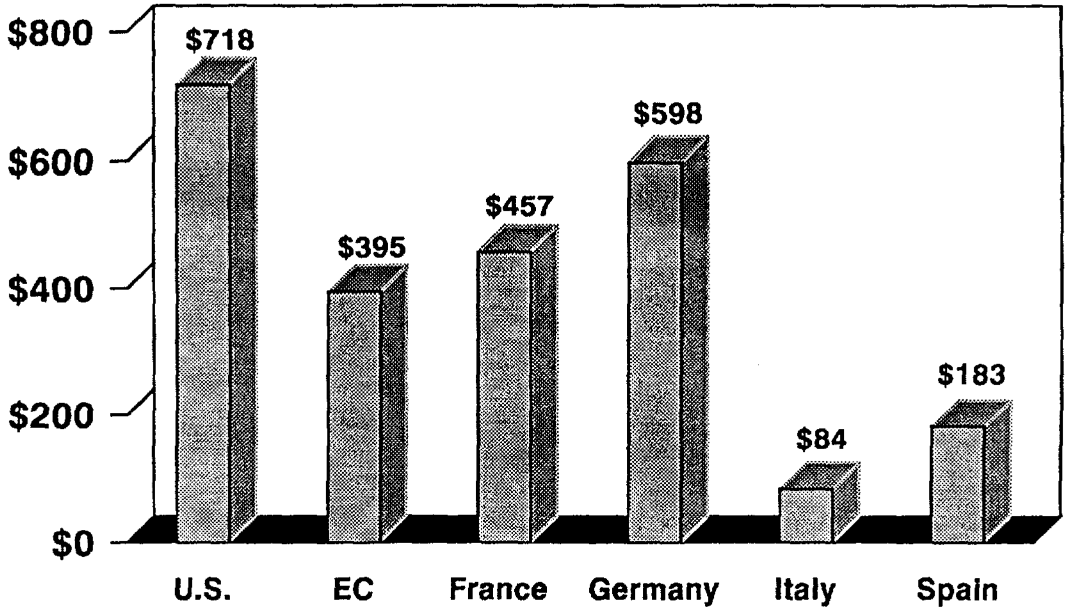
Savings Rates
1989



Source: Business Economics

CHART 2

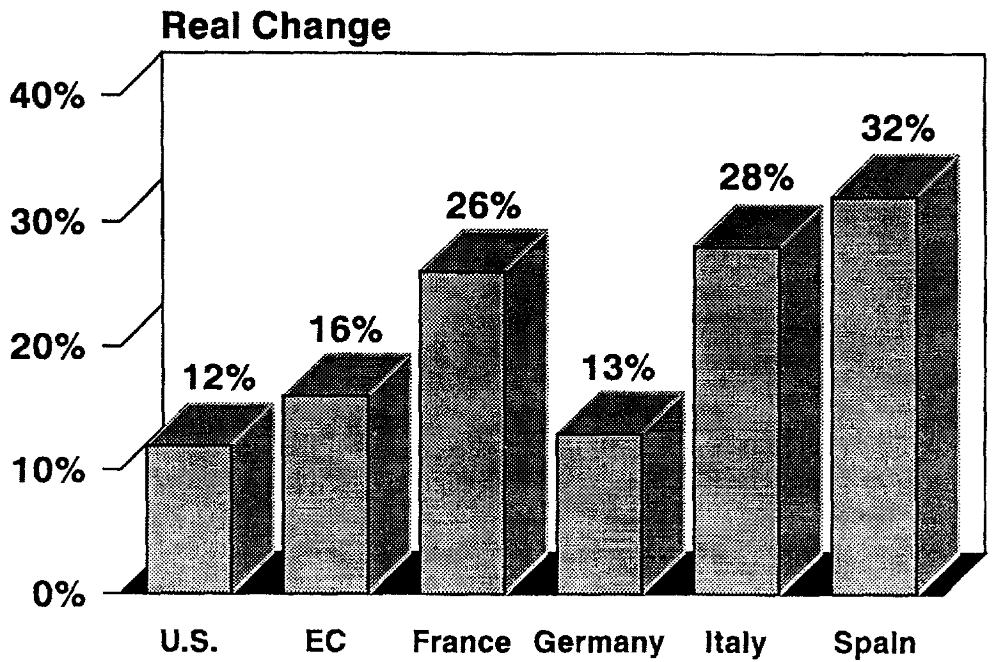
Life Premiums Per Capita
1988



Source: Data from sigma, Swiss Reinsurance Company, Zurich, Switzerland.

Average Growth in Life Business

1986 – 1988



Source: Data from sigma, Swiss Reinsurance Company, Zurich, Switzerland.

some of which we've already discussed. During our initial research, we look for countries that have a stable political environment. If the environment is not stable, we simply look elsewhere. We carefully analyze the market, studying factors such as those we've just covered: the demographics, the economy, the insurance environment, and the direction which developments are taken. We're very interested in the profit potential of a market. The longer it may take to achieve a profit, the riskier and less attractive a venture becomes. In countries where we choose to work with a partner, the identification and selection of that partner is a carefully executed process. As already stated, we look for a common interest and complementary areas of expertise. A similar corporate philosophy, ethics, and style of management can make a sound and stable working relationship possible. Also, there has to be a real commitment to the venture from the top down on both sides. Finally, there must be a clear view on each side of objectives and how responsibilities will be shared. These factors make for good marriage partners, but as each of you know, even the best partners must continue to work at their marriage, and so it is with joint ventures.

All this leads to a final point. Once an operation has commenced, it is very important to stay close to it, to set standards and to establish principles in such areas as quality service, cost effectiveness and corporate culture. If these factors are not focused upon very early in the life of the new company, an opportunity may be lost that cannot be recaptured later on.

Just to close, a decade has just begun and already you could fill volumes with the major events of just this last year. The 1990s will surely be looked upon as a watershed for freedom of people and economic development, and for opportunities on all levels, economic as well as political. As we've already said, along with the opportunities will come risks. We have limited resources in terms of the amount of human talent and financial capital that are available to us. And further, wherever we decide to use our talents and our money, there is still the competition to deal with. As the world is changing, and in effect seeking a new equilibrium, there are many strong and capable players who want their share of all the growth and realignment that's happening. So, if the question is: Will it be easy? the answer is surely no. On the other hand, if the question is, Will it be interesting and exciting? the answer is just as surely yes.

MR. REED: Obviously, Metropolitan has a very thoughtful process and that was a thoughtful presentation of it.

Our next speaker is a guest. He is not a member of the Society, but he has certainly been very active in Japanese actuarial circles. We are honored to have Taira Suekane with us, and in this regard I should mention some of the offices that he has held in his country's equivalent of the Society. He was Secretary from 1977-81. He was a member of their board from 1979-89; that's really some stretch.

He didn't have to deal with the same problem that Ian Salmon encountered, and that is the shift in time zones, because he has been located in New York as his company's senior representative here for a year or so. He tells me that this has its advantages. In Tokyo, he lived about 20 minutes from the core, and a lot of Japanese, you've heard, live an hour and a half from the core. So, in order to get on the train, he had to ask someone to push him in, otherwise he'd never get in. By contrast, he has a 20-minute walk to his office in New York.

MR. TAIRA SUEKANE: Our situation is entirely different from other speakers. For the most part, Japanese life insurance companies are not inclined to internationalize and underwrite business in foreign countries. I do not foresee any big movement to begin underwriting overseas in the near future. As far as I know, only two Japanese companies are doing it. They are Kyoei Life, which has a subsidiary in Brazil, Brazil Kyoei Life, and Meiji Life, which has acquired Pacific Guardian Life in Hawaii.

While they don't underwrite business in foreign countries, Japanese life insurance companies do place a great emphasis on internationalization of the financial aspects of their business, and are investing substantial amounts in loans. Overseas investment and loans expanded rapidly in recent years. As Table 1 indicates, overseas investment and loans rose from 12.2% in 1986 to 20.1% in 1990.

TABLE 1

Overseas Investments from Japanese Insurance Companies
(unit: U.S. $ million)

	Total Assets	Overseas Investments & Loans	Ratio
3-31-1986	384,790	47,038	12.2%
3-31-1987	466,551	72,047	15.4
3-31-1988	566,203	93,594	16.5
3-31-1989	693,449	127,746	18.4
3-31-1990	829,712	166,673	20.1

Overseas Investments & Loans
(unit: U.S. $ million)

	Total	Bonds	Securities	Loans
3-31-1986	47,038	30,361	3,292	13,385
3-31-1987	72,047	48,221	6,018	17,808
3-31-1988	93,594	58,609	11,413	23,572
3-31-1989	127,746	80,153	16,959	30,634
3-31-1990	166,673	103,099	23,976	39,598

Out of all the forms of overseas investments, foreign bonds have seen the greatest increase. It should come as no surprise that U.S. government bonds are the bonds which are most popular. Other types of investments that have also seen tremendous growth in recent years are overseas loans and overseas real estate investments.

Several factors are responsible for the tremendous rise in overseas investment by Japanese companies. They include the difference between domestic and foreign interest rates, and the need to diversify, for many reasons, including a possible earthquake in

Japan. The huge increase in the balance of overseas investments and loans has increased the foreign exchange risks, like the exchange fluctuations and the large exchange losses on valuations due to a highly valued yen.

As a result of increased overseas investments and appreciations of the value of the yen, profit and loss have been seriously affected by a great deal of unrealized loss. This has also resulted in new and special investment transactions, such as forward and future contracts and foreign exchange swaps, which differ from ordinary domestic transactions. Out of this grows new problems with regard to using current methods of accounting. Because of tight monetary policy introduced by the Bank of Japan and accompanying high interest rates on long-term bonds in recent weeks, the Japanese life insurance industry is currently reexamining whether to reduce or cut their overseas investment.

Just after World War II, there were only 20 domestic life insurance companies in Japan. However, as foreign capital began to permeate Japan's economy, so did foreign life insurance companies. In 1973, the first foreign company started life insurance operations in Japan (Table 2). Nine American companies and one Dutch company have followed suit. All of these companies possess either a specialized production or distribution channel, and their business success has exceeded their original projections.

TABLE 2

Premium Income
(unit: U.S. $ Million)

Fiscal Year	Domestic & Foreign	Foreign	Ratio	Foreign Growth Rate
1985	111,815	1,364	1.2%	26.1
1986	135,455	1,829	1.4	34.1
1987	157,325	2,561	1.6	40.1
1988	191,282	4,042	2.1	57.8
1989	203,984	5,319	2.6	31.6

Foreign companies are beginning to penetrate the Japanese pension market, where the total assets of Japanese pension plans are projected to reach, by the end of 1995, 100 trillion yen, or $77 billion, given an exchange rate of 130 yen to the dollar. At present, only a life insurance company or trust company is able to manage a corporate pension plan in Japan. However, as regulations are relaxed, opportunities will emerge for foreign trust banks, consultants and investment advisory companies.

But you will be more interested in the reasons why Japanese life insurance companies are not inclined to internationalization. This has nothing to do with government regulations or guidelines. Japanese life insurance companies simply see little profit opportunity in expanding abroad to a foreign market where risks will greatly vary from those in their domestic market.

Compared to financial nonlife business and banking, the life insurance industry in Japan is inherently a domestic one which has evolved as a cooperative society or community.

Since the law of large numbers does not work here, and a small group organization is expensive, this organization must be expanded. However, our national boundary acts as a tall wall or barrier.

The life insurance industry is a complex one which is technically and legally specialized in each country. The life insurance industry is closely concerned with the economic and social policies of the country. It ties in with the country's public pension plans, the public insurance system, and in particular, the tax systems. As an example, one may observe the unification of the European Common Market. In the EC unification regulation, the liberalization of the life insurance industry lags far behind the liberalization of other financial nonbank business efforts.

Another factor discouraging Japanese life insurance companies from expanding overseas is a movement in Japan towards an aging society. This movement explains the high growth rate in the Japanese life insurance industry which, at present, is experiencing a "golden age." Today, Japanese life insurance companies are confronted with the choice of investing the same amount of capital and human resources in a profitable domestic market as opposed to an unsure foreign market. They favor the domestic market where the return on their investment is certain and risk-free.

As I mentioned at the beginning of my speech, I do not foresee any Japanese life insurance companies attempting to underwrite life insurance business abroad in the near future, especially while the life insurance industry in Japan is experiencing a period of rapid growth. However, once this period tapers off as a result of an aging of the population that is not offset by an increase in the younger generation, Japanese companies may look for ways to supplement decreasing business. Perhaps then, one possible solution may be to expand operations abroad. But this possibility is still too many years in the future for anyone to predict with certainty.

While you may know that Dai-ichi invested substantial sums in exchange for shares in the French company, Victoire Group last December and the American company, Lincoln National Corporation this July, both instances represented investment opportunities and not an attempt to enter either the French or American market. Also, Dai-ichi did have another motive for these investments, which was to study the life insurance industry and the management techniques both here in the United States and in Europe, in order to apply what it learned to the life insurance business in Japan.

If I were sum up the aim of Japanese life insurance companies at this point, I would say their goals are to invest smartly and service the needs of their policyholders wisely. To accomplish these goals, the Japanese companies are constantly trying to learn more about the nature of the industry. I can only offer you my prediction as to how the native Japanese life insurance industry will evolve. As to what will actually happen, it remains anyone's guess.

MR. REED: I know I was very interested indeed in that comment that Japanese life insurance companies simply see little profit opportunity in expanding abroad, which is where we are at now, of course. So what are we all doing? Probably not asking for a big enough profit margin.

INTERNATIONAL DIVERSIFICATION BY LIFE INSURANCE COMPANIES

Our next speaker is Sid Jackson. He recently vacated the role of Chief Executive Officer of Manufacturer's Life. He held that role for quite a number of years, and he has actually been handling Manufacturer's expansion in Pacific Asia on a hands-on basis, so he is extremely well qualified to present to you what Manulife has been doing.

I should say that Sid is very well known in actuarial circles in Canada, and I suspect by many of us in the Society. He was on the board of governors of the Society for some years and he was President of the Canadian Institute of Actuaries.

MR. E. SYDNEY JACKSON: You've picked an interesting group of speakers, each with a different strategy, and I guess it's up to the audience to figure whether some are correct strategies and some are wrong, or whether each is the right strategy for a particular company.

My own company, Manulife, is the smallest of the four represented here, though it has, I believe, the longest and most diverse experience in the international business. I'd say it has been very profitable, and also has been a very interesting business. We've dealt with problems that a domestic company couldn't even dream of: swindles of a type you never see in North America; insurrections (we had the Mau Mau in Kenya); nationalization; devaluation; we were even looking at drug addiction in the 1900s and decided that if the Chinese only smoked eight opium pipes a day, they were an acceptable risk! Of course, they were acceptable at the premiums we charged, which covered a lot of risk.

But, Manulife was formed in 1887, and we were overseas within five years. That's not unique to our company, or surprising for a Canadian company. Canada was small, with a population of about seven million; it couldn't offer property and casualty because the government wouldn't allow it; it couldn't form subsidiaries. So if you wanted to expand in that very large country with a small population, you would expand slowly and we chose to go overseas.

Phase one of our history, I'd say, covered the period from 1887 up to the second world war, and we expanded through much of the British Empire, as well as Japan, China and Indonesia in the Pacific area. We operated through branches. We had similar products, mostly par and nonpar life insurance, and we administered most of them from Toronto. This period ended with the war, and the years following the war when the countries in the British Empire became independent. So the phase two period of our experience would be a contraction, and really from 1935-65, we withdrew from a large number of countries. We would have been in about 50 countries before the war, and by 1965 we were down to about 15.

So, that was a very devastating experience for us, and yet I could say that we survived, and I think it was a profitable experience for us. It did not damage the company, because at the same time we were pulling back from those international operations, we were expanding rapidly in the United States. So the third stage of our development was from about 1965 to the present and future, where we decentralized our organization and continued our international expansion. We have four major operations, each with its regional headquarters and staff that look after everything except investment, which is handled on a worldwide basis. The products that we now offer are country-distinct. Our four areas are Canada, the United States, the United Kingdom and Pacific Asia. As we look at the world, we feel that we have as much confidence in expanding internationally as we have confidence in moving into new financial endeavors, such as the trust business or stock brokerage business or what have you. We think that expertise in investment and marketing, product design, and in the laws, customs and regulations of various countries, is a knowledge that can be used through a diverse variety of countries and nationalities.

I'd like to talk briefly about some of these countries to give you some sense of the risk and rewards. The United States -- it's the largest and arguably our best diversification. The market there is large, highly regulated, mature, with a low savings rate, and perhaps by the Met's standards, it would not be an attractive market. Nevertheless, as a foreign company, after World War II, we looked at it and saw a tremendous opportunity. We had a different investment philosophy from American companies; we reported on a Canadian annual statement, which had advantages, and we saw niches where we could concentrate and make a name for ourself, at that time, substantially in the substandard business, and also in annuities and nonpar life insurance. So in the postwar period we grew very rapidly, to the point where in the mid-1980s, the American business represented 55% of our assets.

From the mid-1980s, that growth has slowed because the very substantial profits that we made through the 1950s, 1960s, and 1970s have fallen by the wayside and the margins are much thinner. There's a much more competitive environment for us and our growth has slowed. The U.S. is, for us, a foreign country, and if we're talking of risks of a foreign country, I can tell you that we're facing a great risk today. Since January 1988, the Congress has imposed an income tax on foreign companies operating through branches, which if it is not rescinded or overthrown by the courts, would be just devastating to us. So even in a country as close to us as the United States, there are the risks of a foreign country. Our own belief is that the tax is in violation of our Canadian/American tax treaty, and we're hopeful that it'll get changed. But it is a risk of doing business in a foreign country.

In the United Kingdom, our operation was similar, I think, to the AMP and, as Ian has suggested, it wasn't a very successful operation over a long period of time, but in recent years, it has got new life, mostly as a result of our decentralization and the change in the tax laws. Products offering protection are now more important in the United Kingdom, where previously it had been basically savings-type products. As a result we now have a large British operation operating with unit-linked policies sold through a subsidiary. This would be our basis for moving into Europe, but unlike AMP, we have no immediate plans to do so. Basically, our strategy for Europe was to build a strong United Kingdom base. I think we're close to having done that, but we're not there yet, and so that is where our attention is directed. I do think that there are opportunities in Europe, but as Ian suggested, constraints are manpower and capital. And while Ian isn't constrained by capital, we have a fear that we might be, so our emphasis in the short run is more inclined to be Pacific Asia, and I think Europe would be phase two. After we have done some of the expanding in Pacific Asia, I would expect that we would move to the United Kingdom.

Pacific Asia is an area, as I intimated, which we are currently concentrating on for expansion. We feel that the twenty-first century belongs to Asia; it has tremendously rising incomes; it's an undeveloped insurance market; it has no social security in most of the countries, and we feel there's very good profit potential. As I mentioned, we were in China, Japan and Indonesia before the war. At the end of 1970, we were only in the Philippines and Hong Kong, with small branches having about 70 agents. Since then, we've expanded, so that in Hong Kong, we now have 900 agents, and we have a regional office for Pacific Asia, consisting of about 300 employees. It's astounding to me that a country that only has five million in population can support 900 agents, but I tell you, they are very successful. They have a high success ratio when they're recruited, and they earn a very good income in a very short period of time.

I'll talk about the future of Hong Kong in a minute. Beyond that, in recent years, we have expanded into Indonesia, Singapore, and this year into Korea. We are planning to move into other countries in the future, and the ones we're looking at are Taiwan, Thailand, and Malaysia.

What are some of the strategic issues that should be addressed in international business? A lot of these have already been mentioned by other speakers, and I'll just try not to repeat them. The first one: Is insurance, like banking, a global business? We've organized ourself on the premise that, so far as assets are concerned, the answer is yes. I think if you invest you have to look at the whole world as an area to invest in, and increasingly, on the liability side, it's becoming domestic, because of social security laws, tax laws, inheritance laws, insurance laws -- each territory has to have its own products. So, in the design of our life insurance products, we have gone more to a national basis; but on the investment side, more to a global basis. We try to keep our computers compatible so if that world changes, we can change too. But I'm glad that I won't be around for that sort of a problem.

Another issue is whether you operate through branches, subsidiaries or partners, and this has already been discussed. By law, we were required to operate through branches, and branches have been a big advantage for us historically. By operating with branches, you are offering the strength of one big company with one surplus.

As you move into subsidiaries, of course, you break that surplus into little blocks, and you don't have the same strength. On the other hand, the branch operation has been increasingly restricted over the years by nations saying you must have so much surplus in this country of ours, that the branch operation is not as advantageous as it was. Nevertheless, it still provides great advantages if the circumstances are right, and I don't think it should be disposed of as an obsolete idea. I would think that in Europe it would be interesting to decide -- and we haven't gone this far -- whether you're going to move from your base, which I think in most cases is the United Kingdom, into continental Europe through subsidiaries or through branch operations.

The subsidiary is, of course, often required. It has an advantage that if you're selling the business, it's easier to dispose of. But it has a disadvantage in a very competitive environment, because by nature, it tends to be a small company, and therefore has high expenses. It also compartmentalizes your surplus. We see this as something that is not as much of a problem in Pacific Asia, where there's not as much competition and that problem is not as severe.

In many of the areas of Pacific Asia we have to have partners and, as mentioned earlier, I think it's most important that you pick your partner with care. We've taken a lot of time doing that, and with our three cases to date, have been quite successful. We have picked both financial and nonfinancial partners; people that are well known in the country with good reputations and who understand our philosophy: that it's a long-term commitment, life insurance accounting produces slow results, and we are the experts in the life insurance business. So it will be the Manulife people that will manage the business. This has worked very successfully in the short time that we've been in Pacific Asia.

Another question, of course, is whether you build or buy, and that's been discussed. In the insurance business, we've basically built in all of our foreign territories. I don't know whether that argument would apply as effectively in Europe, but certainly in Pacific Asia, where in the countries we've been looking at there haven't been well-established companies with good marketing techniques and good products, we have felt that it would be better to start from scratch. And in Pacific Asia, we have been able to start from scratch and expand extremely rapidly. We formed a corporation in Indonesia, I believe five years ago, and by the end of this year I'm told that we'll be the largest life insurance company in Indonesia. Now, I'm not sure how big that is, but nevertheless, it is a very remarkable progress and one that we're delighted with, because the profits have been very good.

Let me just conclude with some of the unusual risks that you run into, and I'd say that we've heard about the planning that you have to do from other speakers. We planned very carefully what countries we wanted to go into, but I can assure you that chances are you'll run into problems that you hadn't anticipated. A lot then depends on the attitude of management as to the commitment to international insurance. Is it a long-term commitment, and can you put up with the frustrations of operating in a different environment? We've been in Hong Kong and Asia since 1897, we'll be celebrating our centennial in Hong Kong when it becomes part of communist China. It is mysterious, but with an understanding and with patience and with the recruiting of people native to those countries, you can overcome those mysteries, I think, very quickly as long as you have the patience and can put up with some of the blocks that you hadn't expected. We've gone into a country planning to sell innovative products and found that the authorities won't allow that, and that the valuation laws are obsolete by our standards -- which requires a large infusion of capital because of high cash values. We've had regulatory interference; we've been caught off guard with labor laws. I could go on and on. But on that point, what I would conclude with is that in each case we've overcome these blocks and, after a lot of frustration, we've been very pleased with the results that we've had in each of those territories.

The final thing I would remark on concerning international business is what happens if the climate changes. Obviously, you have made assessments of that before you go into a country, but over a period of time the climate in that country is going to change. I think North Americans tend to get out of a country too soon. It is a long-term business, and even though the country that you were talking about is having poor economic times, these things are transitory in many instances, and I think you have to take the long view and decide whether that country is going to prosper. I could cite examples where some companies have left the country only to find the country turn around, and when you go back into that country, it is a significant disadvantage for you. The people in the Orient have long memories and they remember that you were in and out, and it takes a long time to overcome that.

Hong Kong, as I say, becomes communist in 1997. We have made extensive studies to see what our risks would be under various circumstances, and are quite happy to carry on the way we are. I guess I would have some concerns as to whether our regional office would be able to be maintained there, but so far as our life insurance business is concerned, we have determined that we can survive 1997 and have a profitable experience. Indeed, I think at this point we're rather optimistic that by 1997 the management of communist China will have changed; it may end up in some sort of a revolution, but in the longer term I think that there's a great market in China and we're optimistic about it.

So, as I say, our basic philosophy is that we would just as soon expand internationally. We think the risks of moving into a new country are no greater than the risks of moving in your own country into a new financial service, and we're very international.

MR. REED: A couple of comments from my own company. Sid mentioned that the taxation situation in the United States is looked at somewhat gravely by his company. My own company thinks that one of the reasons for international diversification is the income tax situation in Canada. Would you agree with that?

MR. JACKSON: Yes, indeed.

MR. REED: If they're going to make things kind of tough for us dealing with our policyholders, that's to say they're gradually gearing up the level of taxation on the inside buildup and so forth, then it makes the products that we've been traditionally selling less attractive, and therefore we should look around for other markets. And that's one of the things we're doing. Also, there's going to be somewhat of an upheaval in Canada over the next two or three years, as a result of re-regulation or deregulation, whichever you prefer to call it, of the financial institutions. We're each going to get into the other's business, and there's going to be some sort of chaos in the marketplace, we think, for two or three years, and meanwhile, maybe we should turn our attention somewhere else.

The question of the capital constraints was raised by every speaker, I think, and in Canada, we're expecting a change in legislation which will permit mutual companies to raise capital on the markets. Personally I have been waiting for this for two or three years. Although my own company is financially strong, it often appears to me to be much more economically feasible to raise the capital externally, and then go after something. And I suspect that others may have the same feeling.

PANEL DISCUSSION

FROM THE FLOOR: I'd just like to ask Mr. Salmon, since you've had entry of a bank into the insurance market in Australia, what in general, has been the response of the insurance industry in Australia to this recent entry?

MR. SALMON: Fear. And that's not too strong a word, I fancy. The largest of the insurers, the two very large ones, both involved themselves with banks in the expectation that they could build a counter to the banks' going into insurance. In both cases, they failed. And it's very clear to the industry at large that the banks are going to carve out a very substantial part of the insurance market for themselves, probably 25% or so. In the process, the small insurers will get badly hurt, and probably to a large extent disappear. The larger ones, like ourselves, will need to be very fleet footed. We may need to create liaisons we've not been accustomed to. We will certainly need to expand internationally. But we haven't been able to find a way of meeting the banks on their own ground in respect to banking.

MR. KEVIN M. LAW: A question for the panel in general. We have international operations in eight different Latin American countries, and there are two particular problems that we've faced. One has been significant currency devaluations, and the second has been exchange controls, such that it's been very difficult to pull profits out of these countries. I'd be curious in hearing any comments from the panel with respect to possible strategies for dealing with these problems.

MR. REED: Who would like to take that one? Sid?

MR. JACKSON: I'm not sure that I can be of much help to you. In our experience, we've basically had more liabilities than assets in many of the countries where we've run into those troubles; that is, we've invested our assets externally. And if then they imposed a restriction, we withdrew. This would be the case in Cuba. In Cuba, we were one of the companies that had very little investment in Cuba. When a country imposed restrictions that required local investment, we looked at the country and if we felt the country was not a proper country to invest in, that the future looked dismal, we withdrew. And that's really why we withdrew from a lot of the British Empire. Once they became independent countries, they didn't have the infrastructure that would allow for good investment, and we didn't see them having good growth possibilities, so in most of those areas, we withdrew.

MR. REED: Our experience was somewhat similar because we operated in many of the same countries; at the times when the heaviest devaluations happened, the assets had been invested in U.S. dollars, for example. But a current example of a country with constraints is the Philippines. You cannot just take money out of the Philippines.

MR. GRAHAM CLAY*: If I can just carry on on the last point for a moment. We also operated throughout the British Empire. We, however, regarded ourselves as good local corporate citizens, we invested our assets locally. And I'm still trying to get some of them back, 40 years after we shut certain operations down! One suggestion is running

* Mr. Clay, not a member of the Society, is Director & Actuary, International Division of Prudential Corporation PLC in London, England.

conferences in these countries. The only problem is you've got to persuade people they're safe to visit. If anyone wants to conference in Kenya, I can probably give you currency on good terms.

Slightly more seriously, though, we've been looking at our expansion plans around the world now, and therefore put a very high priority on picking countries that are economically stable, where we see, with considerable confidence, our future ability to get profits out. First we've got to earn them, but if we earn them, we would hope to be able to get them out if and when they emerge. So, that, I think, is something that would be high on our list of strategic priorities.

If I may go on to make a more general comment, we also expanded in the 1930s around the world, partly following our policyholders around the British Empire; as they migrated, we felt we had to provide a service. But also because we had a very large market share in the U.K., I think it was around the 30% level then, and we were feeling concerned, as Ian Salmon said, about government interference. Indeed, in 1948, there was a distinct threat of nationalization, and that very much cramped our style for expansion for a few years. That, I think, also applied to Canadian companies. It is perhaps also indicative of why the Japanese companies decided they don't wish to expand. They are not constrained locally in terms of volume of business available or by anyone having a dominant market share. It does lead me to ask Bill Kerrigan why the Met has expanded abroad, because as far as I know, they aren't really constrained in that sense in the U.S. And as an aside, they did operate in the U.K. prewar; they left in 1936. Did they find that gave them any problems when they came back or had there been a long enough gap?

MR. KERRIGAN: I think we found that that was a long enough gap. We didn't have any problems when we went back in.

We do think that the U.S. market is still attractive. We aren't constrained at all in the U.S., and we feel there are still some good growth opportunities here, which we're pursuing. But there are markets overseas that are significant markets for which we think we have expertise that we can use effectively. We can tap into some of those markets, perhaps along with an investment policy that, at the same time, would be more international. So, just looking at the markets and looking at what we can offer, looking at the potential for profitability, those are reasons, really, for looking internationally. We also think, as I believe Ian mentioned, that the market is going to be more of an international one in the future, so you might regard what we've done so far as really being our initial steps.