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GLOBALIZATION IN THE INSURANCE INDUSTRY

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MR. ROBERT L. COLLETT: I trust that you've all received the first newsletter of the International Section. I hope you're pleased with it. It's an exciting time. Things are changing rapidly on the national scene and on the international scene. We heard earlier that we must think internationally, understand some new ideas that are different from those that served us well in the past, and that these changes are necessary for us and for our employers to survive and to prosper.

In this International Section, like others within the Society, we exist to provide services to members, in particular to encourage and facilitate professional development, for all of us who are involved and interested in international insurance, pension and Social Security programs.

At this point, I'd like to turn things over to Camilo Salazar. Camilo is vice-chairperson of the Section.

MR. CAMILO J. SALAZAR: This is the first breakfast at a Society meeting for our newly formed Section. As you know, over the years, the Society has traditionally recognized the specific areas of interest of its members and has encouraged the creation of specialized sections that provide greater focus on issues related to the profession, such as financial reporting, product development in nontraditional markets and so on.

Each of these sections addresses a fundamental component of our business and changes taking place in these specific areas. As everything else around us, our business is in a constant state of change. Our marketplace is changing and the needs of our members are changing as well. Some of these changes are driven by external social, political and economic developments beyond North America. As John Estes' presentation earlier highlighted, some of these changes tend to represent trends and impacts on our jobs and our profession that have yet to be evaluated.

The emergence of the European community, the changes in eastern Europe, the increasing importance of the Pacific rim, the resurgence of Latin America, and the North American Free Trade Agreement are just a few examples of international developments that will have tremendous impact on our jobs and professional activities in the years to come.

The globalization of our own economy and that of many industries forces us to take interest and look beyond our domestic markets. The time, therefore, is right for the Society of Actuaries to recognize the importance of these trends and the future impact they will have on our profession. With the creation of the International Section, the Society will be able to focus on the international arena to help its

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members understand and prepare for the changes taking place and the opportunities available in this arena.

Given that this is our first International Section Breakfast, we thought it appropriate to invite a guest speaker who has had his attention focused exclusively on the international insurance issues for the last 26 years, and to share with us some of his thoughts on the current trends and changes in the international life insurance marketplace. Many of us have only recently begun to consider the implications of international business strategies, but Mr. Richard Collins has spent a career building talents, building businesses, and building success in markets around the world. Mr. Collins is currently the president of American Life Insurance Company (ALICO), which is a member of AIG, and has been associated with the company since 1966.

ALICO is one of the largest international life insurance companies in the world, with operations in approximately 60 countries. Principal operations are in the Far East, including Japan, Taiwan, and Korea, and the Middle East, Europe, the Caribbean, Latin America, Africa, and Canada.

Mr. Collins' career has taken him to many places, including those in which he has lived with his family. Some of these foreign assignments, however, have been more challenging than others. He has lived in places like Bermuda, Japan and Iraq. He has also lived in Lebanon, where he managed ALICO operations in the Middle East, Greece and Cyprus. Before becoming president of ALICO in 1981, Mr. Collins' last overseas assignment was for two years in Tokyo, Japan as vice president of ALICO Japan. Most recently he has traveled extensively in eastern Europe where he has led the effort to start up ALICO operations in Poland, Hungary and the Czechoslovakia Republic.

Having begun in Shanghai in 1921, ALICO has a unique history and culture as an international company. The company's consistent growth and experience in markets as diverse as Tokyo and Nairobi give Mr. Collins an unparalleled perspective. Under his leadership, the company has experienced a tremendous growth of over 25% a year in the last 11 years. Life Insurance Marketing and Research Association has called him a leading authority on the globalization of the life insurance industry.

As I said earlier, the time is right for us to start focusing on international issues, to examine what impact the changing globalization in the marketplace has on us and how we can relate to these changes and trends. To help us start doing just that, I am pleased to introduce to you, Mr. Richard Collins.

MR. RICHARD R. COLLINS: First, maybe we should think about the changes that have occurred in North America, not in the international environment. I have to be careful in talking about the international business. This is second nature to me. I feel as much at home in the international area as you do in the U.S. market, the North American market.

Camilo suggested that I talk about globalization trends of U.S. insurance companies, the opportunities and risks of conducting business in international markets and business and cultural differences. I think what I'll do is probably touch on both. But, before I do that, I'd like to read something and quote what a number of presidents of

American companies are saying about the international market. Do you have to go global to grow? Certainly there's no clear answer to that question. I think, however, that you should know what's going on internationally so that you can make the right decision. But, let's quote a few company presidents, to give you a feeling for where everyone is on this, and it's a wide spectrum.

James Ore, who is the president of UNUM says this: "As the insurance market becomes even more international, domestic companies will need to adapt to a changing product, service and distribution environment." He notes: "These changes will impact all of us, whether we are acquiring foreign companies, starting operations in other countries or finding ourselves faced with mounting foreign competition in our own markets. The best preparation for these changes is to manage our business well and be flexible to move with what promises to be a very dynamic marketplace." Mr. Ore does not believe that insurance will develop as a global market in the same way that consumer goods have, or even to a degree of other financial services, such as investment banking or equity trading. "These types of goods," and I quote him, "and services can be marketed with relative uniformity from country to country; rather we see nationalistic insurance markets in which different insurance needs, consumer attitudes and government regulations will require a slower, more careful entry."

He continues to talk about his company, and he has three objectives laid out for his company.

The first one is expanding outside the U.S. to leverage its disability strengths, establish substantial positions in attractive markets, and provide additional revenue and product. I'm going to stop right here and just make a comment on why this makes sense for a company like UNUM. It is a specialty company, as far as I'm concerned. It is very, very professional in the LTD business and now in long-term care. It is one of the few U.S. companies that has, over the years, done an outstanding job at it and I think that the international market probably is a very good opportunity for it.

One of the things that you can bring to the international market is product. The LTD and long-term care products are really not as entrenched in the international market. As a matter of fact, it's probably like what it was here many, many years ago. UNUM has a unique product, a unique expertise and is doing well in its own market -- I think UNUM is on the right track.

The second reason that it is doing this is because it's meeting the needs of existing domestic clients, who are becoming more global by developing the capability to insure U.S. nationals abroad, as well as foreign subsidiaries of U.S. companies.

The third reason is to further develop understanding of the opportunities and challenges presented by developing the international insurance marketplace. From a strategic perspective, an international presence will be critical for competing in the future.

Another company, the Principal Financial Group, is taking steps to go international. It has made a commitment apparently, starting in 1990. It says, "We're going to do it on a slow, incremental basis and we plan to work towards globalizing our organization."

The Equitable had an operation in Japan, and it had to move back from that. But, now that AXA (a French insurance holding company) is in there, what is it going to do globally? I'm not so sure that the Equitable would do it. I think that probably AXA will be the one that will be doing it, though I don't want to speak on behalf of AXA or the Equitable. I'm just assuming.

The president of Ohio National is a gentleman who believes that globalization is mainly a concern of the large companies. You could go on, but everyone you talk to in our business that has a company in the U.S. has a different opinion. What I want to do is really briefly review, and again, this is going to come from the AIG perspective. But also, I know what U.S. companies are doing in the international market and I'll make a few comments about that.

Quite candidly, outside of AIG and CIGNA, I'm going to talk basically about the life insurance business and some employee benefits. That would include some form of accident and disability insurance on a limited basis, certainly not the way it is, not the products that we have in the North American market. AIG and CIGNA are the only two U.S. players that have a global reach. AIG certainly is number one and AIG is a very unique American company. Most American companies start in the U.S., build a base in the U.S., build their business in the U.S., and go to foreign markets. We did just the opposite. We started in foreign markets and we came to the North American market. So, when I say that the international arena for us is second nature, I really mean that.

Metropolitan, The Prudential, John Hancock, New York Life, Aetna, and UNUM are really the U.S. companies that have made a move in the international market. I'll mention a few more as I go along, those that went in and came out. Metropolitan, The Prudential, New York Life, John Hancock, and to a certain extent Aetna, have decided that they're going to focus on basically the four tigers out in Asia. In addition, they're looking to Indonesia. They are making major financial and human resource investments in those countries, with a very focused approach. They're not trying to be all things to all people in all countries. I know I've missed a few U.S. companies, but it's not intentional.

What I'd like to do now is just take the globe, put it in regions, and see where the opportunities and the risks are by region.

Let's start with the common market. Today for our industry the common market is basically in name only. Until the day that there is a common currency in Europe, I think it will be difficult to think of the common market as one market. Within that common market, Germany, Switzerland, France, Belgium, and Holland are extremely competitive and extremely difficult markets. I know of no U.S. company that is successful in Germany, including ours. I mention Switzerland because I think eventually Switzerland will be in the common market. It has applied and I suspect by 1994-95 it will be in.

To go in there today, with the players that are in those markets, with what's going on in those markets, I would not recommend going after those five countries because most of the markets in those countries are more difficult than the North American market. They are major. I call them elephants in the market and five or six companies control the market; it's just very hard. They have tremendous hidden assets. It's highly regulated. The markets are not very loose for foreigners to come in.

The opportunities in Europe, in my view, are Mediterranean countries: Spain, Portugal, Greece, Italy, basically the Mediterranean countries. Those markets are not really very well developed. There's a lot of opportunity. Their margins are still very good. There aren't too many good players in the market. So, in my estimation, those are good markets. And of course, there are the former Eastern block countries. Opportunities are there but there is a lot of economic instability, a lot of currency problems, a lot of inflation. In countries like Hungary, Poland, Czechoslovakia, and the commonwealth of independent states, no one is doing anything there now. Basically, they're exploring and trying to put the regulations together.

Long-range opportunities exist in those markets (you're looking 10, 15, maybe 20 years ahead) and there are going to be problems in those markets.

In the Middle East, Turkey and the Arab states are areas where there are good opportunities, but with very, very high risk. Unless you know your way around there -- the land mines there are very frequent.

Probably the best opportunity on an international basis is where most of the U.S. companies are focusing and that is selectively within the Pacific rim. Certainly I would not recommend anyone trying to go into Japan today to build a life insurance operation there. I just think it would be tremendously costly and it would be years and years before you could make a cumulative statutory profit. There are few American companies there that are very successful. We, ALICO, were the first to go into Japan 20 years ago. We have a very successful operation.

American Family is very successful, but it sells the cancer product. I think even it was surprised at the success that it has had in Japan. As a matter of fact, it writes more cancer premiums than any other foreign company writes in total premium. There are something like 10 million policyholders. Unfortunately, 95% of the Japan operation is 90% of its total company.

Korea is, in my opinion, the most difficult market in Asia and the reason for this is that the Koreans really don't want any foreigners there. As a result, they make it very, very difficult for foreigners to be successful there. Also, timing in Korea has had a lot to do with what's happened. When Korea opened its markets, it was forced to open its markets through a 301 action taken by the U.S. government. Korea was annoyed, but companies were let in. CIGNA was the first one to get in. We went in second, and a whole series of U.S. companies came in after we did, and at the same time, there was what I call a political revolution. Korea went from being a dictatorship to a democracy and there were tremendous disruptions. Every operation, CIGNA, ourselves, almost everyone has been unionized. It's just very, very difficult to get anything done.

On top of that, there is not a lot of opportunity on the product side. Everyone has to use the same product. The rates are the rates. What they allow you for yourself is not really very much. Study that one very carefully.

Korea is one of the four tigers, and many U.S. companies are going in there. My view is that there will be a lot of blood letting before the ball game is over there. That's going to be very, very expensive for everyone.

I guess the most successful American company in Korea is Aetna. Aetna went in early with a joint-venture partner, one of these conglomerates. There are now all kinds of businesses and the conglomerate has been tremendously helpful in helping the insurance operation grow. But, the general manager of Aetna in Korea last year indicated to me that Aetna was going to put in about $75 million before it started to make a profit in Korea. To us, $75 million is a lot of money to put into one country, but, of course, to some of the U.S. companies, that's not a lot of money.

AIDS is a major problem in Thailand. For those of you looking at Thailand, you may want to just look at that and back away because, the information we have is that AIDS is going to devastate that country.

I think the opportunities are closer to home. I think right now the best country is our neighbor to the south. I think Mexico offers more opportunity than any other country, even all the ones that I've mentioned. Its market is not highly developed. The life insurance industry there is really very, very small. I was there last year and looking at the figures there, there was only one company where the renewal premium was greater than the first-year premium. I've been working with the Mexican market for 25 years, and the Mexican market has not changed tremendously in 25 years.

Now it's changing and the reason it's changing is that government and business people want it to change. There has been a tremendous change of attitude in the Mexican people. That is something that was really, very surprising to me, compared to what they were 20, 10, or even 5 years ago. The business people and the government people want to succeed. They want Mexico to compete with the U.S. and Canada. The attitude of the government people and the business people is a great combination to have.

Now, that's not to say that there is discipline in our business in Mexico. There is not much discipline. Agents go from one company to the next. The name of the game is how much first-year commission you can get each year, and how much you can, if you turn the business. They write life insurance there like automobile insurance. You think of it as one-year policies.

But if you go in there as a North American company and you do in Mexico exactly what you do in your own market, you should be successful. Don't try to do what the Mexican companies do. I would even advise you not to hire anybody from that market. Take your own people, bring them in there to set it up, and then hire only people who have no insurance experience. That's certainly true on the sales and sales management side. I'm not talking about the actuarial or financial side of the house.

As you know, these foreign countries do not easily give you licenses to go into these markets and let me tell you why. There are eight Korean companies in Korea. Right now there are eight foreign companies, so the number of foreign companies that have come in, in a short period of time is the same as the number of local companies, and that's generally true in most of the countries. In Japan, there are 19 Japanese life companies. Up until a few years ago in Taiwan there were only six local companies. It took us four years to get our license. Six local companies controlled the market. The reason I mention that is if there are a small number of companies, of course, they are behind the government. They don't want to allow foreigners to come in, especially what they see as big American companies. For years, all of these countries in Asia and really on a global basis, have come to the U.S. and have tried to copy what we do in this country. I'm sure that many of your companies have had foreign visitors. I know many of the associations in this country have foreign visitors. They come here. They look at what we do here. They go back and try to really emulate and copy what we do.

Certainly that's true on the distribution side. North America is probably 15-20 years ahead, depending on the country, in distribution, sales and sales management, in terms of the degree of sophistication, the level of professionalism, the level of managerial skills, the level of sales skills, and the point-of-sale selling systems that we have, all of what you need to put together to have a great life insurance company. Most foreign countries are that far behind.

That is an opportunity, but also, in my view, a problem that is very difficult for most Americans to deal with. We're here, they're here. We go into the market. We want them to come here. It doesn't work that way. We go into the market. We have to come here and we have to bring them up. You can't teach people what we've experienced from generation to generation very quickly. So, that's where many American companies have difficulties.

I said earlier, however, don't do anything in a foreign country that you don't do on your own, in your own company or market. Trying to be different is certainly a formula for a lot of difficulty in the foreign markets. If you go in, make sure that you go in for the long pull, as I said earlier.

In Japan, for example, the Combined went in and it didn't stay. Mutual of Omaha went in and it didn't stay, and Connecticut Mutual went in to get a license in Taiwan. It didn't stay. I'm just naming a few. That hurts us. That hurts any American company that is exploring the possibility of going into foreign markets, because we then give the authorities reasons to make it more difficult for others to come into the market.

So, we can't tell companies what to do. They have to do their own thing. But, if you're going to go into the international market, make sure that you have a commitment that's 150%.

Let me give you another example of how the thinking is different. For example, many companies in Europe, and I'm talking from a stock company point of view here, don't think the same way that we do in the U.S., in North America, in terms of profitability. We have to have more profit each quarter than we had in the last quarter. At least that's the objective. So the GAAP profit is very, very important to us. Now, to the Europeans that is not so important. What's important to the Europeans is to build a company, to build the embedded value of the company. That's a very simplistic analysis, but it's much more complicated than that. But, essentially, you almost think of it in a way that they are building their companies to sell them, even though they don't sell them. They build their companies to build value, and as a result, it's very, very difficult for a U.S. stock company to compete in that environment when there is the pressure to report the earnings. If you go the same route that the major European companies do, then the chances are it will impact and hurt your bottom line. But, these are just some of the differences that exist between what goes on in North America and what goes on in the international markets.

New York Life did not have a very good experience in the U.K. It's not New York Life's fault. It did the right thing. But the U.K. has the Financial Services Act. There was no licensing, there was nothing, it was just a wide-open market. The U.K. wanted to make sure that the regulations it has in place are enforced and it had to pick on someone. So, it picked on Windsor and New York Life. I am sure that other foreign companies and the British companies are no different than Windsor.

So, these are some of the things that you have to be careful of. Did they pick on Windsor because it was a foreign company? You'll never find that out. I know for a fact that there are British companies that should have been above the Windsor. So, these are some of the things that you have to be very careful of in foreign markets. The regulations are in place, and most countries are much more bureaucratic and enforce their regulations much more then we do here in the U.S. I don't have a lot of experience dealing with the insurance commissioners or the insurance departments in this country. But, I'm sure that they're more reasonable to talk to than many of the authorities.

Let's talk about the Japan Ministry of Finance (MOF) or the Korean MOF, or the Taiwan MOF that controls the insurance side of the house. There's no product flexibility in any of those three countries. I give the Japanese a tremendous amount of credit. The banks and the insurance companies have 3% of the market in Japan. It has been like that for a long time and maybe over time that number will increase. The Japanese make sure that the foreigners have a share of the market, and they make sure that the foreign companies succeed there. How do they do that? Well, they give exclusives to companies' own products. American Family had a seven-year exclusive in the cancer product. Nobody else could sell that product in that market for seven years.

We introduced a full in-hospital product. We had an exclusive on it for five years. I wish the Germans would do that. We just introduced another product in Japan, and we were given a one-year exclusive. The MOF makes sure that the foreigners are protected. Nipon has 20% of the market. Without the MOF, Nipon and three or four others, which control 60%, 65% of the market, could decide that one day they were going to be the only companies in Japan. The Japanese will not admit any of this, but I've lived and worked there. So, I know what they're doing. All you have to do is look at the marketshare figures for other financial institutions.

Well, I've talked an awful lot and I've come to, as you realize, no conclusions. I think that each of you has to come to your own conclusions as to what you're going to do in the international market. We know what we are and we know what we're doing. We know where we're going. But not everyone is like us and not everyone should go in the foreign market. Ask a question, "Should you expand beyond your own market until you get a reasonable return on your own operation?" But, those are your decisions, not mine. Twenty percent return on equity is not happening in the U.S. market. As a matter of fact, the return on equity is in single digits. I think it's hard to justify going to foreign markets if you're not doing very well at home by industry standards. But, again, I'm not here to preach to anyone and I'm not trying. People sometimes accuse me of discouraging U.S. companies from going into the foreign market so we can keep it all to ourselves. That's a good strategy. But, believe me, except for Japan, the per capita ownership of our product is very small. There are tremendous opportunities in foreign markets.

FROM THE FLOOR: Dick, you've covered most of the world. Could we have some thoughts on Africa and South America?

MR. COLLINS: Africa will probably not change in the next 100 years. Probably about the only area in Africa that I think I'd look at is South Africa. AIDS is going to devastate the rest of Africa. We are there. We're in the Barbary Coast, Cameroon, Senegal, and Nigeria. We're in Liberia, but we're not doing any business there. We've stopped writing business. We had Sierra Leone, but, we sold out. We were in Kenya. I'm not talking about the Arab countries in North Africa. But I just see no opportunity there, except maybe for South Africa.

These countries have tremendous economic problems, tremendous political problems. You have to see it to believe it, what's going on with the currencies. Five years ago, the Naira in Nigeria was 132 to 1. It was more than a dollar. Today the Naira is like 30 to 1. Do you know what I mean? You have to run fast to stay even in dollar terms, because as a U.S. company, you can only report your results in dollars. So even though you're growing in local currency, there are good growth rates in local currency, the way that evaluations hit you. . . . Our Nigerian company five years ago was wonderful. But we lost 30 times the value of the currency in five years. There's no way that you can grow your business to offset that.

Look at Kenya and it's the same thing. The shilling a few years ago was 12. The shilling now is in the 30s. You see that it's just going to continue to happen. We're all waiting for the French to let it go. The minute the French let go, those currencies are going to devalue by, who knows? Right now, for some reason, the French have agreed that they're going to support the CFA franc and tie it to the franc.

Mexico is a wonderful opportunity. Chile is a wonderful country. In Chile the Social Security system is privatized. As a matter of fact, the Social Security system in Chile is in the hands of foreigners. The foreign companies are the major players handling the Social Security system in Chile. We happen to have one of these companies. Aetna is there; there are a number of companies.

Foreigners, it's very interesting. I think that long-term politically, total foreign ownership is not viable. I don't think it's going to stay. I don't think they'll legislate against it. But I think that they will slowly force you to become more, to be local, to have local partners and the locals will own more then 50%.

I think there is an opportunity in Argentina right now. The Argentines, however, still don't believe that they have solved their problems. So Argentina will allow you to sell U.S. dollar business. Further, you can get a company, sell U.S. dollar business, and they have investments that you can use to invest your reserves, your liabilities. Now, from personal experience, is it viable or does it make sense for a country like Argentina to allow the life insurance industry to develop in U.S. dollar terms? That's a very interesting question.

Bolivia is a little country and in the 1950s, 1960s and 1970s, up until the early 1980s, it had a dollar economy. We were selling U.S. dollar policies. There were reserve facilities for investing U.S. dollars. The government woke up one day and it de-dollarized the economy. The government says now you don't have to pay off your liabilities in dollars -- pay them off in local currency. The people who have policies have policies in U.S. dollars; they paid U.S. dollars. It's a headache because a U.S. company will come here, and you'll be taken to court. It's a headache.

I have mixed feelings. Camilo's been working on that, and I don't know if Camilo has the same feeling that I do. But certainly it's a risk that has to be analyzed very carefully. But the only way I think you can do business in Argentina at this time is if it's in a hard currency. The reason the industry has not developed is because it's been hard for inflation. It's the same with Brazil.

The other is Venezuela. But, when it had that attempted coup earlier this year, everyone backed away from Venezuela. So, we're still waiting to see what's going to happen there. But certainly it struck the wealth. It struck the oil revenues and if it can get its political house in order, then certainly it will get its economic house in order.

But little countries, like Uruguay, with a population of three million, are not a big deal. Panama is very small; it has a dollar-based economy anyway. The balboa and the dollar are on par and are interchangeable.

FROM THE FLOOR: Could we go back to your comment about Thailand? As I recall, you're the only foreign company in there, at least you were a couple of years ago. It's one of the best growing economies in the region. So, the economies are increasing and yet you're saying AIDS is so devastating that you have to question the life systems.

MR. COLLINS: You have to question going in. If you're there, somehow you can manage it.

FROM THE FLOOR: Well, I guess my question is, given the rapid spread of AIDS, but given the rapid growth in the economy, what sort of strategies do you see working in Thailand?

MR. COLLINS: You have to do everything that you can to protect yourself against AIDS, and we do that. Let me tell you how we do that. If the country allows an exclusion, we put the exclusion in. In certain countries, we test every single person. We don't underwrite anything without 100% testing, no matter what the policy size is.

Yes, the markets are there, the savings rates are there, but my view is, you have to take the kinds of precautions that I'm talking about. It's not easy to compete in those markets, because there are some companies in some of the markets in which we work where we do the AIDS testing, where we put in the AIDS exclusion, and the local companies are not willing to follow that. Sometimes you're the lone ranger, you're all by yourself.

FROM THE FLOOR: The steps that you take, having a pricing differentiation, getting that kind of protection, shouldn't you be able to price a little more consistently than what local companies are doing?

MR. COLLINS: Many of those countries don't allow much pricing differentiation. I'm not sure whether Thailand allows pricing differentiation. But the tendency is for pricing to be basically the same. But, if you can, certainly that's the route, and we do that. But it's very difficult, as you know, to price for AIDS.

FROM THE FLOOR: Can you talk about China?

MR. COLLINS: Well, we're going ahead. We don't see that 1997 is going to change very much, at least for us. Incidentally, much of the business sold in Hong Kong today is sold in U.S. dollars, not sold in Hong Kong dollars, and that's not only true of us, but of other companies, too. So the risk there, if something happens, is on new business going forward. If you sell in U.S. dollars there are no restrictions to keep your reserves in the country. In China we have a license. AIG has a license to go back into China. I don't know if you saw the announcement, but it came out in the last few weeks, and we're going to use American Insurance Association which is the Hong Kong company. It is going to start developing life and other lines of business in China.

We were there, we left in 1949, and we're going back. That was just concluded recently after many, many years of hard work. The politics in China are not going to change very dramatically. The government's allowing a lot of capitalism to go on in that market. We're not a political institution. We just try to stick to the business.

As long as President Bush is around, you don't worry too much. But again there's a question mark as to what Clinton is going to do. But the chances are that not much is going to happen. There's just going to be a lot of noise and I know in business it's a great opportunity. China is a great opportunity. I mean, if you could do what you wanted to do in China you would -- just focus on that.

India and Pakistan are third-world countries with a lot of population, and a lot of poverty. We were in Pakistan. We were nationalized. We'd love to go back in. You get in those markets, but those markets are not easy to manage and control. I should tell you what the margins are in those countries.

FROM THE FLOOR: Do distribution costs in this country seem to be higher, lower or about the same?

MR. COLLINS: It varies from country to country. For example, I think that distribution costs are very high in the U.K. But most foreign countries don't have the level of distribution cost that we have in this country. The authorities tend to regulate that more than is done in this country. For example, in Japan, in looking at an ordinary book of business, and taking the mixture of business on the ordinary, whole life, variable, and some endowments, the total commissions that you'd pay, including agent and manager levels, are probably not more than 65%. That's relatively good compared to here.

FROM THE FLOOR: I'd like to get back to what you said about Europe. I agree that Spain, Portugal, Greece, and Italy are the better entrants right now. But, don't you kind of see entry into one of those four countries as kind of like a stepping stone to an access to the common market? I see that directives will be in place sometime in 1994, which opens up a big market, somewhere around 320 or 360 million consumers.

MR. COLLINS: Well, we happen to be in all those countries. But, you can go into any of those countries from Portugal or Spain or Greece. As long as you're in one country, you can branch out into the others.

FROM THE FLOOR: So, would the strategy be to pick one of the ones that you can get into very easily, with not a lot of very strict supervision, and try to make that your base for being able to sell everywhere else on the market?

MR. COLLINS: Let me give you a very specific example. Our Greek operation happens to be the best operation we have in Europe. It's really a quality operation. We have 15% market share and you have to go a long way to find a better operation than that. So, we're using Greece to supervise Portugal and Spain and gain entry into the Eastern Bloc countries. Those markets are similar; they're not the same as the rest of the common market. So, I think you have to use a different strategy there than you would in Germany or in other countries in the common market.

I think that, for example, you may want to consider, down the road, using Switzerland to go into Germany and into France and into Holland. Switzerland is going to become a member of the common market and it's got a neutral name. In Europe, there are no problems with the Swiss.

I didn't talk about all the cultural issues. In Europe, even though there is a common market, there are still individual cultures. It's very difficult for a French man to manage a German and vice versa. That's a problem in any country in Europe. The culture is still a major problem.