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**MANAGEMENT OF MULTINATIONAL ORGANIZATIONS
FROM A HOME OFFICE PERSPECTIVE**

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- Cultural issues
- Regulatory issues
- Marketing issues
- Investments and currency risks
- Repatriation of profits

MR. CHARLES E. MOES, JR.: We have a very interesting panel. Before I introduce Jim Bridgeman to speak about international insurance from the Pacific Rim perspective, I have a couple of comments to make with respect to the North American Free Trade Agreement (NAFTA), which is in the process of being ratified. Perhaps I'm putting the cart before the horse here, because it remains to be seen whether it will be ratified. If we can assume that it will be ratified, then there are a couple of considerations that we as actuaries and insurance professionals need to start thinking about. As more North American companies are starting to look toward Latin America as a potential market, they should keep in mind that the North American Free Trade Agreement would definitely change the ground rules as they pertain to Mexico. If agreements of this nature then spread throughout Latin America, corresponding changes in the ground rules will be made there as well.

A lot of companies that enter into these markets do so on an unlicensed basis, and heretofore local regulators in Mexico, Venezuela, or Argentina have not had really good legal recourse in the court system of the U.S. If the NAFTA is ratified, then such recourse may very well be established through the terms of that agreement, depending on its final form. So, as we look at Latin America as a potential market, we must be cognizant of this and make sure that we organize ourselves and our marketing efforts in that region of the world with an eye toward being able to comply with that type of a legal environment.

Another important implication of the NAFTA for the actuarial profession really harkens back to the situation that we had a few years ago with respect to college credit for exams; these may seem like unrelated topics, but there very well could be a nexus. Part of NAFTA will pertain to recognition of professional accreditation across international boundaries. In other words, what would actuaries from the U.S. have to do to be accredited or qualified to practice in Mexico, and vice versa? In Mexico, actuarial qualification is achieved through attendance in a suitable college program and there

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may be an experience requirement. However, if through NAFTA Mexican actuaries gain some professional standing in the U.S. and their background is basically college degrees plus suitable experience, then we may have to reexamine the situation as to whether or not a similar experience and qualification set is adequate for U.S. actuaries, as well.

So, because of NAFTA, the issue may come up again. Again, I do not want to put the cart before the horse, but I did think it advisable to raise this point. If the issue does arise, we should be able to respond to it in a reasonable manner.

Our first speaker is Mr. Jim Bridgeman from Aetna International. Jim is a vice president there. Aetna International is a subsidiary of Aetna Life & Casualty with affiliate operations in South America, Mexico, Canada, the United Kingdom and several Pacific Rim countries. Jim has his AB from Notre Dame and an MA from Yale in mathematics. As I look over his activities at Aetna, I am inclined to ask what has he not done, as opposed to listing what he has done. In any event, he has done pricing for individual and group annuities, corporate planning and surplus management, investor relations, property/casualty underwriting, health maintenance organization (HMO) management, and data processing systems development. He assumed his present international responsibilities in mid-1992. Professionally, Jim has done research and analysis for several industry committees during the early discussions with respect to dynamic valuation standards. Additionally, he spent nearly ten years on the editorial board of the *Transactions* of the Society of Actuaries.

MR. JAMES G. BRIDGEMAN: I am going to lead off by disqualifying myself to talk about what I am about to address. This reminds me of the experience I had in studying mathematics. I never learned a subject until it was my turn to teach it. I am still very much in a learning mode on the international business. I have been in this position less than a year. What I am going to offer is going to be more in the nature of questions and observations than answers, and I hope you find some value from it. But I know I am going to find some value from the other panelists and from your discussions.

With this topic, it becomes fairly important to ask what is the home office role in that multinational organization. It takes me back to an experience I had when I was an investor relations officer for Aetna. One of the other large Hartford companies had appointed a new senior officer that the analyst on Wall Street had never heard about; in typical fashion they called another local company to see if they could get the scoop on him. They asked me about this fellow and I said I did not know, but that my father had worked for that company for 35 years, all in the field, and I would see what I could find out. So, I called my father, who was then retired, asked him about this guy and he racked his brain for a few minutes for the guy's name and he said, "Oh, yeah, in 35 years that is the only person who ever came out from Hartford and just told us the truth."

Now, that, for me, struck an important note on some responsibilities for home office people in an organization. The role of the home office depends on the strategy the company is taking internationally, and very simply, there is probably a spectrum of strategies for developing its international business. At one end of the

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spectrum is a portfolio management model, buying and selling companies and paying some sort of housekeeping attention to them, but letting them run themselves.

Probably somewhere on the other extreme is a model of running sales outlets for businesses that are going to be managed and controlled in a central fashion. Most multinational organizations are somewhere in between. The challenge is to find their niche and to provide value added from the central organization to the various multinational operations. At Aetna, over the last ten years we have operated on that portfolio management role and found it was not very satisfactory from a results point of view. So, we have been working harder to find out what is our value added.

The models can run across the spectrum. You can be bringing a franchise. That is a fairly standard way of operating and involves standards that enforce that franchise. It can be a little looser where you are dealing actively in the selection and deployment of personnel for your affiliate operations multinationally. Another way of adding value is to bring specific knowledge and expertise, either on products, marketing, administration, data processing, and so on into the affiliates.

An important role that I am seeing within Aetna is the idea of providing some cross-pollination among affiliates. Often, that "best of breed" idea is not coming from Hartford. It is found in one affiliate. Hartford's role may be to get that idea active in another affiliate in order to bring them together. One of the most key home office roles is that of the business developer, helping an operation with local roots, local personnel, largely local management, getting it up and running on the basis of the best knowledge and experience that we have in Hartford or world wide in that business development role. We add the value up front, but we do not necessarily find a continuing flow of value added from the home office.

At any rate, the position you take on the spectrum and the answers you give have something to do with how you are going to organize your operations. Are you going to have full functioning, autonomous companies in each country where you operate? I do not know of anyone who operates quite this way. There is another approach involving a fairly high degree of centralization where most functions are performed centrally and you have something closer to marketing outlets in your other affiliates. You need to worry about the economies of scale. We talk a lot about economies of scale -- why do we have to duplicate an actuarial department, a marketing department, an administration department, a data processing systems department, in a dozen countries? That notion of economies of scale is a powerful one, but we are in a world where decentralization economies of effectiveness are equally as important.

With specific reference to the Pacific Rim, logistical considerations become pretty important to answering these questions concerning the home office management role. How often do you need to interact with the people in your affiliates when you are 12 or 13 hours away? Sheer logistics come to play a major role that they might not play multinationally elsewhere in the world. How intense does the communication have to be? Can you get by with written exchanges, occasional telephone or teleconference exchanges or is "pressing the flesh" essential to what you are trying to achieve? Logistically, how quickly do questions need to get answered when they have been asked, either questions from headquarters to the affiliate or when the affiliate needs something from headquarters? These questions of how intense and how frequent the

communications have to be, not only must overcome time zones, but also language barriers. Even the technical language is a challenge and that includes not only the actuarial technical languages, but also data processing and, to an extent, marketing. Common language makes a difference as to how you are going to organize that home office role.

A lot of travel, telephone calls, electronic mail, and indeed, electronic accounting systems can help. But, we still found, at Aetna, that to have a home office in the Pacific Rim was essential to making it all work. We have a regional office in Hong Kong that essentially functions as the home office for the Hong Kong operations. There are actuarial functions, data processing, and marketing, all essentially of a home office nature.

One of the cultural considerations in the Pacific Rim that we found to be quite important is the confusion culture, which in one way or another predominates throughout that part of the world. One of the most important aspects is that people work *within* a group, not as individuals, and *for* the home office, however you have defined it, be it from Hartford, from Hong Kong or anywhere in between. It is not going to be very effective until the home office becomes part of the group in each affiliate or until the people in the affiliate think of, in our case, Aetna as part of the group to which they belong. But, that is a slightly larger abstraction. Certainly, an Aetna in Hong Kong or an Aetna in Hartford is not going to be part of the group for which that the confusion culture is really going to give someone value in return.

So, sometimes by accident, more often by having the right local people, and sometimes by long plan design, success in the Pacific Rim really depends on finding a way of getting particular key managers clearly identified with their organization as the group that is going to be their success and their family's success in the world.

Another aspect is a respect for learning and an attention to learning which is really quite obvious when working with people in this part of the world in an actuarial discipline. The sheer intensity and quality of the actuarial work has been impressive to me beyond anything I have seen in the states. Things are very well organized, very well put together, very well thought through, and not at the expense of the business effectiveness. Sometimes the trade off is between the effectiveness of our work and the dotting of every i, the crossing of every t. These folks seem to have found a way to have both sharp business focus and a kind of perfection of the academic aspect of the work which is impressive to me. I am not sure what that means, but it is an aspect that has struck me.

Another important difference I have seen is the concept of "face," which I do not understand well enough to clearly describe, but this is reflected in a responsiveness to requests. The answer "no" is very seldom heard from these folks. As a home office manager, and I have seen that you get what you ask for. So, be careful about what you ask for. If you ask for a certain study or analysis, or a response to a regulator's question, or help with a response, you will almost always get a carefully considered, fully researched answer. There is risk in that. By asking too many questions you can get your people working far too much on satisfying the home office request and not enough on developing the business. There also is some risk that the substance of the communication erodes. You will ask a question. You will always get an answer. If

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you have overdone what you are asking for, the materiality of the answer may be able to come into question. You just need to be careful.

When operating in the Pacific area, another cultural phenomenon is that it is as a U.S. firm. What you stand for becomes important. You must know going in what it is you stand for because you will be carefully observed and tested. There will be lots of opportunities to define what you uniquely are, and you will be judged in terms of actual decisions and actual behavior. If you define yourself in contrary distinction to some of your competition, and there is an opportunity to do this in the Pacific (for example, by the high ethical standards with which you do business), that can make a difference over time and that is certainly a definition that we have worked to achieve at Aetna. It will be tested and you will have opportunities to show in your decision making that your actions are consistent with your words.

What are your business principles and what are you trying to achieve? In working with joint venture partners locally, it is extraordinarily important to understand the motives and objectives of your joint venture partners; then, you must align yours with theirs.

In the Pacific Rim, there are some specific product design marketing issues that jump out; marketing jumps out first. The quality of the distribution systems in the areas where we have operated has tended to be a lot less professional than we are used to in the states. I think many of us as actuaries often worry about the quality of the distribution force, even here! Well, most of what we see there in the marketplace is a much less professional, less reliable, less productive distribution force as the norm. It is easy to set a strategy to differentiate yourself by having a more professional, more productive distribution. It is somewhat harder to make that happen. Our ability to control that distribution system is a key issue, because as Westerners, with perhaps expatriate managers, we need to be sure that the managers responsible for the distribution system are well aligned with our business philosophy.

Compensation for distribution is an important issue. It is too darned expensive virtually everywhere we are doing business. We've developed a strategy of whittling away at those compensation costs without alienating the distribution force and without making sharp veers in our strategy. It has been an important part of our experience.

From a home office perspective the existence of different product paradigms has been quite bewildering. There are at least three different paradigms of what a life insurance product is or ought to be. One paradigm is out of the British tradition with reversionary bonuses, or terminal bonus types of business. It is a very different way of looking at the insurance product and is particularly interesting for a U.S. firm to try to align that product model with U.S. style investment support for insurance because the reversionary bonus type of product design is made with an investment style that is heavily invested in real estate, income and stock equities. That is not our investment style, yet we are in marketplaces that demand that kind of product. What to do? We have not quite solved that problem in every case.

Another product paradigm is, of course, the more U.S.-style product. That does not cause as many problems in understanding. It causes a risk, at least, that one will

understand the product better than your market does. There is another product style that I had thought was a Japanese style. We do not do insurance business in Japan. We do some investing there and I learned I was a little too ignorant about the Japanese market. So, I just call it the Korean style. I thought the Korean product style was more or less aligned with the Japanese style. But, there is a style of product that has been very, very difficult for a westerner to come to grips with and it is a product with lots of variety in the benefits. It might include a small death benefit which is 3 or 4 times as large if there is an accidental death, but it's 12 times as large if it is a death by automobile accident. You can play lots of games on this theme and these are standard products in that market. There is nothing wrong with them. They are well designed. They work well. It's bewildering for someone like me to walk in and understand them, and that is one of the challenges that you need to assume before you can manage.

We certainly found it works better to have a real focus on a limited number of products. But, then we need to manage a change process, what is the next generational product and in particular a change product which tends to move from the indigenous product paradigm more in the direction of what we see the future, which is somewhat convergent across borders, but we cannot always see that.

Investments are another major issue from a home office understanding and control point of view. The simple fact is that in the Pacific Rim economies, other than Japan, the duration of available investments is extraordinarily short. Three years is a long term for an investment and that is three years to maturity; the duration would be even a little shorter. The products one way or another are mostly traditional long-term life insurance products. There is a severe mismatch. Worse yet, we believe there is probably a secular bias towards declining real interest rates in these economies. We have chosen to go into emerging economies as a business strategy. By their very nature these emerging economies are going to have high real returns and high real interest rates. We think that by their very nature as those economies mature, real interest rates will shrink. So, we are in a situation where we are not only exposed to the random elements of interest rates because of the mismatch, but we think the secular bias works against us. So, what to do? I would hope that there is a way to use equities in an investment strategy in a way that would help restore this balance. We have not figured out exactly how to do that from the perspective of improved asset/liability matching. It is not a problem that has been addressed and solved in a U.S. asset/liability matching context. In the U.K. they have partially solved the problem on the product side with a reversionary bonus product structure.

There are a couple of opportunities. One that we have tried, with some modest success, is to change the investments available in the given economy. We have pushed for more use of mortgage-type lending in some of our economies with some success and have thereby managed to extend the duration of our portfolio a bit. That is still in the early stages. It is a marginal help. But, it has begun to help. I would also be very interested if anyone has decent concepts of cross border hedging. One conceptual solution to the problem is you cannot invest long enough in Malaysia. Well, perhaps, one could invest long in the states and do some sort of currency hedge. That sounds good. I am not sure how to implement that. There are certainly accounting issues to be concerned about. As the home office actuarial officer, the thing that has caused the greatest problem for me is how to take a variety of local

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accounting conventions and apply U.S. GAAP requirements to them. Typical issues include the proper way to treat certain dividend and bonus configurations, which are not as straightforward as U.S. participating business. What is the proper way to account for them from a GAAP point of view?

We have had some significant issues on valuing dividend restrictions in certain companies and I should say the reverse profit restrictions, for profits remittances. There are often restrictions on what can inure to the shareholders. It is quite far from the standard U.S. configuration for which U.S. GAAP was designed. From a home office perspective, there are a lot of trade offs between what is the added value of precise U.S. GAAP accounting versus the corresponding added expense. The local requirement, of course, is not to do it. So, it is a pure tax on your local affiliate to have to do U.S. GAAP accounting compared with the expense structures of their competitors.

I'm not going to present a lot of detail on the regulatory issues because they are as diverse as the countries in which we do business. In terms of the model of how to do business we have found that a strong local presence, often with a joint venture partner and a full functioning company in the local economy, is almost a requirement of successful regulatory relations. We have positioned ourselves with some success as a source of knowledge and expertise to regulatory authorities in many of the countries in which we do business. This flows from the very high quality of our local personnel. They often are approached by local regulatory authorities for their expertise in the development of regulatory positions and we do our best to be responsive and bring in knowledge and expertise from outside that country or from others in the region (or from the states) to help regulators when they are addressing specific issues. Again, it is an expensive process, but one that we find valuable for us.

One of the suggested topics was the issue of repatriating profits and hedging. We are not at the development stage where we have profits that we wish to repatriate. We are beginning to see profits in some of our businesses, but, we are reinvesting as fast as they emerge. Our model of our business, in fact, is a global deployment of assets for the long term. We do not see our entries in the Pacific Rim economies as investments where we are looking to recapture or repatriate at any specific time on any sort of planning horizon. We view these as businesses that we want to expand and make part of Aetna's overall base for the long term, and we see growth modes there for at least ten years or longer.

We do have some specific issues concerning what profits are ours versus what are the policyholder profits in some of the jurisdictions in which we do business.

MR. MOES: I think it is always interesting to learn about some of the cultural differences that we encounter in different parts of the world and the prospect of offering 12 times the face amount if the death is due to an automobile accident. I do not think I would want to offer that in Mexico City, however.

Our next speaker is Mr. Jan Jobe from Principal International, an affiliate of the Principal Mutual. Jan is a native of Ohio. He graduated from Miami of Ohio. He got into the insurance industry and began his career with Principal in 1975 as a group and pension sales representative in Pittsburgh, Pennsylvania. He was transferred to the home office in 1980 and promoted to regional director of group and pension sales

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responsible for overseeing the 13 regional sales offices in the northeast. So I would assume he knows his way around Boston reasonably well. He was made a regional vice president in 1984 and then promoted to president of Principal International in 1990; thus they "gave" him the whole world. He currently serves on several boards in Iowa; is a board member for the Council for International Understanding, the Iowa Traders Association, the Governor's Task Force for International Insurance in Iowa and is on the Life Insurance Marketing and Research Association International Committee.

MR. JAN JOBE: You probably noticed as Chip gave my bio that there was not anything remotely resembling actuarial science. That is because there is nothing. I came up from the sales ranks, so you are going to hear a purely nontechnical viewpoint of this subject from Principal's perspective.

It is probably good to note that I characterize my international opportunities somewhat similar to the way I started. I got up and I put my contacts in and I was walking around down here for about 15-20 minutes and everything looked very blurry and I could not figure out what the problem was. Finally I went in the bathroom and realized I had put each one in the opposite eye. So, that is the way my whole international career has been so far, groping in the dark, trying to figure out the best way to do this.

It is an opportunity to meet challenge, an opportunity for change and that is what we are here to talk about. I would like to start out by just answering one question that I often get in many of the presentations I make. Everybody thinks that international insurance is a very glamorous industry because you get to travel. A frequent question I get is how much do you really travel and where do you go? I can answer that in about a 20-second reenactment of something that happened recently. I sat in my office the day after I returned from Asia, and I was getting ready to go home. I called home to tell them I was on my way. I got my 11-year-old daughter Jessica on the phone. We talked for about two minutes after which there was a pause in the conversation and she said, "Who is this?" and I said, "Jessica, it is your dad," and she said, "Ted who?" That is absolutely true. I did not make that up. I had to do a reality check and try to figure out where I was and how important some things in my life are. Nevertheless, international is part of my life and that is what we are here to talk about.

I thank Jim for doing a marvelous job of looking at the various alternatives and describing what the alternatives are. Now, I can focus on specifically how Principal approaches some of these things. As Chip indicated, we are fairly new to this having come on the scene in 1990. So, we certainly do not pretend to have all the answers. We know how we approach it and we know that there will be many changes in the way that we approach it. But from Principal's home office management perspective, I think we consider our primary responsibility to set strategic direction. We try to and will continue to try to get our operations in Europe and the other countries and regions that we have established to be as autonomous as we possibly can. Nevertheless, we do provide support in the early stages and will continue to do so as needed. We provide support from a technical standpoint; we try to help with product development and pricing to the extent we can, recognizing that local knowledge and local market perspective is very important. We are working with systems and development and helping in those areas by providing support from our

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home office departments. In that particular area we happen to be in the throes of trying to develop what we hope will be an international multicultural, multilingual, and multicurrency administrative system.

We provide the communication support. We try as early as possible to establish the ability to use E-mail on an international basis. We have established videoconferencing facilities between our home office and Spain, which is our only actual offshore operation that is in business at this point. We have three or four more on slate for 1993, but we do only have one at this point. So, as you can see, I am speaking from a fairly limited view, although we have studied it in depth.

We provide the investment support, although we will eventually try to move that into the local company so it is an autonomous part of the company. We try not to do their accounting, but help set up the proper accounting systems and help achieve a reporting relationship where they can provide numbers to us so that we get everything on a similar format from all of our international operations regardless of how they do their accounting or what accounting standards they have to meet locally.

A big part of what we see our home office job to be is cultural blending. As I said, we do not want to run the operation, but we believe it is important to have one of our key people in the operation help with this blending of what we think or what we really believe is what both parties bring to the table. We do not go into any of these situations looking at it as though Principal is bringing everything to the operation and the locals bring nothing. We recognize that there is a great amount that they bring, and the person that we put in that local company is charged with one of the main responsibilities of trying to blend what they do best with what we do best, hopefully making one plus one equals three.

As we moved along, we found that the human resource issue is a far greater issue than we had initially anticipated for a couple of reasons. One, is that we place expatriots in our operations. There is a vast amount of work that needs to be done to make sure that they are fully prepared to go on the assignments, that they are properly selected to go on the assignment, that they know how to act when they get there, and that we have provisions for repatriating them back in the company. I can not say that we have got all those things in place at this point. They are all issues that we know we need to address and that we are working very hard to address because we see it as very vital to our success. When you look at facts like 50-60% of the expatriots that are sent on assignments have failed assignments, you realize that it is pretty costly to spend two and a half to three times a person's salary on an overseas assignment.

For a local operation or for a foreign operation with 6 or even 13 people. We spend a lot of our time trying to build the bridges and the network between Principal International and the other departments of the company to make sure that we get the support that we need and that they understand why we are asking for it.

In fact, we are established in an S-view strategic business unit format. When you are in that kind of an environment, it tends to encourage an inward thinking process from the department's standpoints. So we are working very hard to make sure that we get people thinking about what we are doing and get their assistance in doing it.

Presumably as a U.S. company, one of the things we bring to the table, in most instances, especially in Europe, is expertise. That means you need to have some way of getting that expertise to the marketplace and since we are not looking at sending 20 Principal people to every company that we establish we have to somehow train the people in the local environment.

So we have worked with putting the proper steps in place to help train the investment people, to help train the sales people, which is a fundamental issue that Jim mentioned in his conversation about Asia. In general, the sales people in most of these countries are not viewed as professional, at least as we would view them in the U.S. Therefore, we believe that we must establish a way to train the sales people and give them the same kind of professionalism that we believe Principal's U.S. people have. We believe that and training and management are the things that have characterized our company. It relates more to philosophical training as opposed to specific management training, helping them understand the philosophies under which Principal operates. Again, we think that those have been keys to our success in the U.S. and while maybe not exactly transferable, we think applicable in many cases.

Jim commented on frequency of contact. I try to talk to our manager and our expatriot in Spain weekly. He talked about the intensity, how we get along with it. We video conference once every two weeks and we also communicate by electronic mail many times a day. How quickly? From our perspective we view turn around time as essential from our home office perspective. One of the things we are trying to bring to our operations in Europe is a sense of responsiveness. In many areas they are not as service-oriented as we are and that is one of the things we believe very strongly in. We believe if we want to get them to work in a service mode like we do in the U.S. we have got to provide them the level of service that sets the example for that. So, we try to turn things around on a more rapid basis than we would in the U.S. in order to try to set that kind of an example.

Let's move on then to cultural issues. I have broken this down into two pieces. One is strategy, and the other is examples. When I give the examples and talk about the cultural issues in general, my comments are not meant to imply one is bad or one is good. They are really focused on trying to establish that there are differences and we have to figure out how to deal with those differences. But, let us deal with the cultural strategy or the issues with respect to strategy. The first one is respect of the culture. I think many American companies go into this business with the "we will tell you how to do it" attitude. If we are going to survive in Europe we have found that we cannot approach it that way. We must go into it from the standpoint of acknowledging that there are differences between the two cultures and learn how to work with those differences.

We have done that through development of -- and this is another part of our strategy -- a six-week training program specifically focused on the types of things we should do domestically. I will give you a couple of examples. There are actually six pieces to it, and each piece is a week. One thing is management competencies. We deal with strategic planning with communication, and team building. We teach those things to all the people that are in international and all the people that are going on international assignments from a domestic or a U.S. point of view and then we

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expand it to how we would change it if working in Europe or in Asia. That six-week training program, is specifically focused on a given region of the world.

So, at the same time as we are giving the competencies, we also are teaching people about the cultures, and the geography. It is amazing to find out how many of our U.S. people, and I was one of them before I went into international insurance, don't even know where some of these countries are. We are trying to teach the cultural differences, how to deal with them, how to work with them. At this point, it has only been run once. It has been given only to our people in the international operation. We are going to condense that program into a six-day program focusing specifically on the bare essentials with an attempt to expand that throughout our total organization because we believe that global awareness of the total company is just as important as the people that are working in international.

Awareness is important; it is like a story I heard about Ted Turner in his early days when he was getting ready to establish CNN. He went to the bank to get his financing, and at that time was asked, "Why would we want to give you financing for this project, who would watch TV at 2:00 A.M. or 4:00 A.M.?" Well, I think now we know who watches TV at 2:00 A.M. and 4:00 A.M. It is the people on the other side of the world. It's not the people in the U.S. that are up at 2:00 and 4:00 a.m. I think CNN has established why a global awareness is extremely important. Ted Turner has carried that on through his organization, I understand, to the extent that he does not allow the use of the word *foreigner* in his company, and he did that by sending out a memo that said, anyone caught using the word *foreigner* in written or verbal communication will be fined \$100.

Let's move on to the other cultural strategy issues. We make an attempt to identify our multicultural employees. We have a database of them and all the languages they speak. We try to use those in our development stages and to bounce some of our thinking off of them. We also establish relationships with the universities to try to develop an understanding of what we are trying to do and use some of their people on research projects, to develop ideas and concepts that we are thinking about. We also use them as interns because we think that in many cases we may be able to, if we find good employees, return them to the home country and they will at that point know the English language and have some experience with our company. We also work very hard, from a cultural issue standpoint, at doing employee exchanges with other countries so that we can get an inside look at the operations of another insurance company in that country and the culture of the country.

One cultural issue example, from Europe, specifically from Spain, is the difference in the way we view work. We view work from the standpoint, that we live to work and they work to live; there is a fundamental difference there. Work is only something that they do to enjoy life whereas from our perspectives, we actually work to work because we enjoy it. The view on responsibility is different than it is here. There is a saying in Spain: if somebody lends you his car and you wreck it and he asks you, "What happened?" say it broke itself on its way to me. People do not tend to take responsibility for a given action.

The initiative is different. Europeans are educated using rote memory, and good from that standpoint, much better than we are. But, as a result, the educational system

does not tend to teach the same things that we do from the standpoint of going out and looking for new ways to do things. Vacation issues are different. They have far more vacation. They view it as being more important than we do, and from a budget and planning standpoint most companies in Spain do not have much of a budget or planning process. We are very budget and planning controlled. So we have worked very hard at trying to develop that sense of order or organization in our company in terms of putting in those processes.

Moving on to product design, we firmly believe that we are working in markets where simple products are the name of the game, and in many cases they are products that because of the nature of the markets that we are entering – sounds much like Aetna – we look for the emerging markets. As a result, they are products that we may have worked with or we may have had on the shelf for 10 or 15 years. We must try not to wow them with our expertise, but instead do something that fits the need of the marketplace, which is one of our key criteria. We are trying to develop products that fit needs, as opposed to products that are just sold and pushed down the buyer's throat. We think that is one of the main reasons for the large persistency problems in a lot of the countries; people really do not realize why they buy products.

Initially our product design efforts are very focused. We are working in the employee benefits area which is again a little bit different than most of our competing companies. That is mainly because it is a strength for us in the U.S. and we are trying to work in the same strength areas that we have here in other countries. We want to try to develop high-quality products, the kind of products that we would have in the U.S. There are price wars going on in a lot of markets. We are not attempting and do not want to compete in those markets. We want to write profitable business and if it means growing a little bit slower, we are willing to do that.

We want to develop a long-term and financially sound image, and an image that provides education in the marketplace because we think many of these markets have not been well educated in the insurance and pension fields. We believe it is our obligation to do that; not only must we create need, but we must help them with the fundamental buying decisions that they have to make. Also, we try to get our infrastructure on a sound basis before we start launching a major marketing or sales effort, mainly because we believe that that is important if we are going to continue to maintain that image.

We are looking for low-cost, controlled distribution. For us, that means probably salaried sales representatives as opposed to massive agency networks.

The primary view we have on regulations in the European Community (EC) is that EC 92 is not going to experience the harmonization that was intended. We are still dealing with different currencies, and different languages, and different distribution systems in those countries and the cultural differences remain. As such, we believe it is important to be a player in each of the countries in that market, as opposed to branch offices. The insurance regulators for the most part are looking for companies that have commitment and that want you to be able to prove that commitment before they will let you in; it is not necessarily an easy process.

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Some of our friends have been trying to get into Spain for almost two years now and have had a very difficult time getting in. They are looking very hard at that because of the number of companies that have pulled out. From our standpoint, we look at the regulatory perspective primarily because it is a strategy we have. Since we are in the employee benefits market, we tend to look at the social security systems to see how adequate they are and whether they are starting to fail or whether they are starting to have some difficulties. We know from past experience that that brings in privatization, and there usually is a pending rate legislation that occurs in order to get the benefits picture into the private sector and encourage employees and employers to purchase benefits from that standpoint. These are the kind of countries we look for.

I would make the same comments with respect to repatriation of profits that Jim made. What profits? We do not have any profits yet. If and when we do, I echo Jim's comments. We are not looking to pull the profits out of the country. We are looking to expand a global organization where the assets are retained in those countries, to expand those companies to be the same kind of company we would expect and want them to be in the U.S.

The only thing we might use to depart from that is we are going to move into a regionalization concept where we will provide some support services for economies that fail and to solve some of the logistical and time difference and cultural problems. When we do that, there is a possibility we will use that as a strategic business unit of it is own and have the profits flow up to the regions so that it can use them to develop the region as it sees fit instead of doing it from the home office standpoint.

I would encourage you to look at it seriously because we believe it is really the way of the future and the major players are going to need to be global players.

MR. MOES: Our final presenter is Mr. William Nemerever. Bill is a managing director for Boston International Advisors, it's a \$2 billion international investment management firm. Before that William was executive vice president for Fidelity Investments where he specialized in the taxable fixed income end of the business. He is an FSA and began his insurance career at John Hancock.

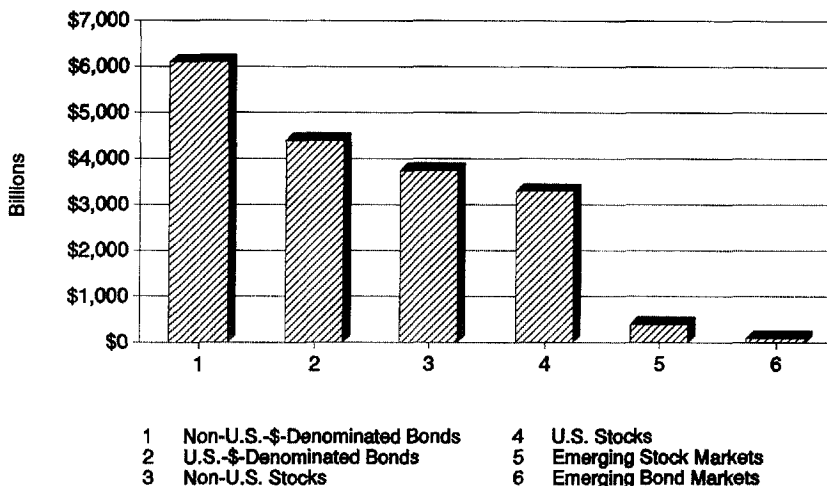
MR. WILLIAM L. NEMEREVER: What I would like to do is take a little different perspective, not from the liability side, but from the asset side and talk about foreign fixed income. I would like you to think about it from two perspectives. One is an opportunity for domestic insurance companies with domestic business to improve returns and do some interesting things. As Jim pointed out, it is a challenge on the foreign side in terms of owning assets to support liabilities.

I would like to talk to you a little bit about what opportunities exist outside the U.S., the issue of asset allocation, and what purpose foreign fixed income can serve in a portfolio context, why we should look at it, and what the future might bring. This is pretty staggering, I think, that for a market that very few people are invested in domestically, the non-U.S.-dollar-denominated bonds are the largest market in the world (Chart 1). It dominates U.S.-dollar-denominated debt on U.S. stocks and emerging markets. This is a growing and tremendously large market to which most insurance companies have no exposure.

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Just as an aside, one of the issues that we have run into in insurance companies is the feeling that one needs to match dollar-denominated liabilities with dollar-denominated assets and I think that handicaps a lot of people.

CHART 1
Market Capitalization
12/31/91



Source: Data from Salomon Brothers, Merrill Lynch, J.P. Morgan Securities, Frank Russell Company, MSCI, IFC

Jim referred to the issue of availability. You can think about dividing this universe into three categories. One category is the developed markets that are characterized by very efficient situations, good price disclosures, and reasonable size. Tier two markets are in a sense coming into their own but may be markets you are interested in writing insurance in. Then the emerging markets, which I will expand on, that are really brand new sorts of markets, though based on the discussions not new from the insurance point of view. On the emerging side you get some pretty exotic names, though I think companies like ARG are probably a familiar presence in these markets.

But, there are investments in many of the countries, though they do not belong to the traditional bond or stock category. We have divided Table 1 into loans and bonds, loans being basically commercial bank loans that have been traded so they are longer duration investment vehicles that are available in many cases. But, they are not friendly sorts of things. They are more like private placements. The bulk of the emerging market is dominated by the top four countries: Argentina, Brazil, Mexico and Venezuela. There are very interesting opportunities in these areas and spectacular return opportunities that are probably being ignored by most companies.

One of the interesting things about emerging market debt is that the bulk of it is U.S.-dollar denominated. So, the issue of currency does not have to come into your

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equation. The Brady Bonds, which I do not really have time to go into, make up the bulk of this dollar-denominated debt, but represent loans that have been turned into bonds, with a bit of collateral. They are all dollar-denominated, and generally long term, 15-30 years. So, there are real interesting instruments in countries that I would call kind of exotic.

TABLE 1
Emerging Market Countries: U.S. Dollar Investments

Country	Loans	Bonds
Argentina (Ba1/NR)		X
Brazil (B2/NR)	X	X
Mexico (Ba2/BB+)	X	X
Venezuela (Ba1/BB)		X
Chile (BBB)		X
Costa Rica	X	X
Ecuador	X	X
Hungary		X
Jamaica	X	
Morocco	X	
Nicaragua	X	
Nigeria	X	X
Panama	X	
Peru	X	
Philippines		X
Poland	X	
Uruguay		X

Now, I would like to turn to the developed markets for a moment. If any of you are in a position in your company to make the case for foreign bonds, the first thing you want is some data to work with but the data are pretty sparse. Table 2 shows you that most of the history of total return, that you might need in order to demonstrate that these are good things to invest in, begins in the mid-1980s. We have had to extend these series back to get something reasonable. But, if you start working in this area, the first thing you will run into is lack of good data beyond the mid-1980s.

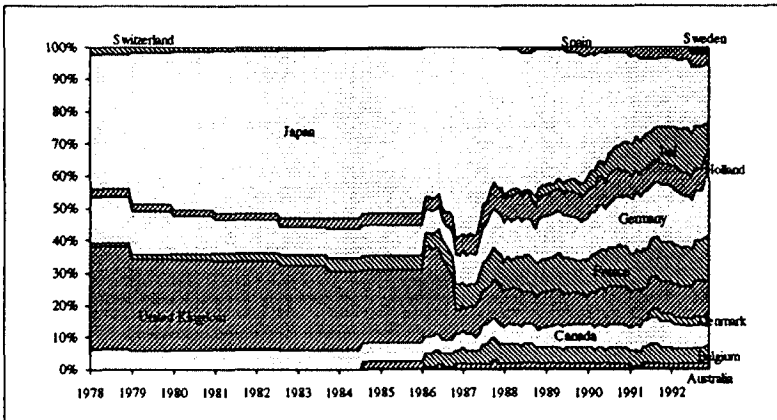
Chart 2 is just a snapshot of what the developed markets look like in terms of capitalization. I would point out the very major dominance of Japan, early on, which is much less prevalent now. The U.K. of course, was also a major market early in the period. This represents our extension of these published series back to 1978. But, you can see how the markets also have really become much more diversified with the entrance of countries like Spain and Italy. I would like to mention these are extraordinarily sophisticated markets; a lot of the U.S. talent from the investment banks has gone overseas. So, you have developed futures markets in each one of these countries. Hedging and getting specific types of exposure is very straightforward.

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TABLE 2
Total Return Data Availability

Developed Markets	
Salomon	1985
J.P. Morgan Securities	1986
Merrill Lynch	1986
Lehman Brothers	1987
UBS Philips & Drew	1987
Tier II Markets: Incomplete	
<i>Lehman Indexes</i>	
Austria	1987
Norway	1991
Finland	1991
Portugal	1992
Ireland	1987
Emerging Markets: Incomplete	
Salomon Brady Index	1990
J.P. Morgan Securities Index	1991

CHART 2
Country Composition: JP Morgan and
Synthetic Non-U.S. Index

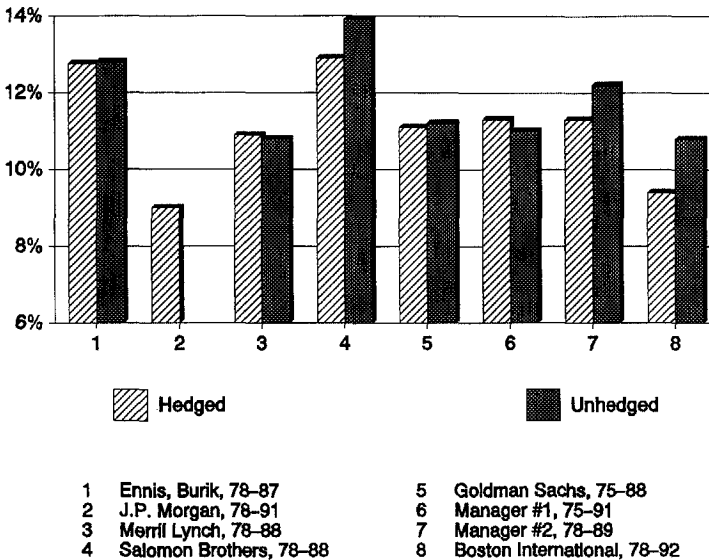


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If you are trying to sell an asset class one of the big burdens you bear is return. What's the point? Why invest? And if you try to make the argument that the returns were higher than the domestic market, you have a problem for which there are some structural reasons.

Charts 3 and 4 are just a display of different studies people have done showing the risk and return from a hedged and an unhedged perspective. You can see there is a fair amount of different opinion. This shows developing technologies and there is not a lot of consensus as to what actual returns were over time. So, we think this is not a good way to draw conclusions about historical returns.

CHART 3
Historical Returns: Non-U.S. Bonds



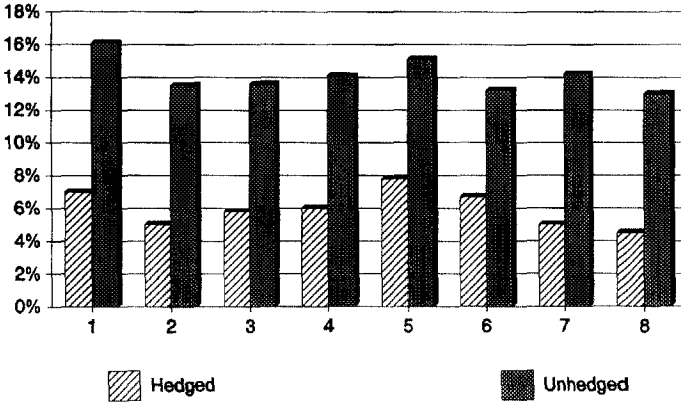
Risk is another issue. People are more in agreement about the level of volatility in the markets. The annual total return volatility, basically mark to market volatility, is in the 12-14% range which is not as high as our U.S. stock market, but it sure is going higher than the U.S. bond market. On a hedged basis, these lighter bars show in Chart 5 it is substantially less, which explains some of the popularity of a hedged approach in this market.

Table 3 is a good summary statistic. It shows for the last 15 years how one would have done in various asset classes. We have EAFE, which is Europe, Australia and the Far East stock index compared with the Standard & Poor's 500, non-U.S. bonds, global bonds, which basically are half U.S. The world, by capitalization, is about 50% U.S. The Lehman aggregate, we have been told, is a reasonable benchmark for a life insurance company. One company we have worked with has a return benchmark of 150 basis points over Lehman aggregate-type returns. By the way, we are plotting return and annual standard deviation of return as a measure of risk and how low

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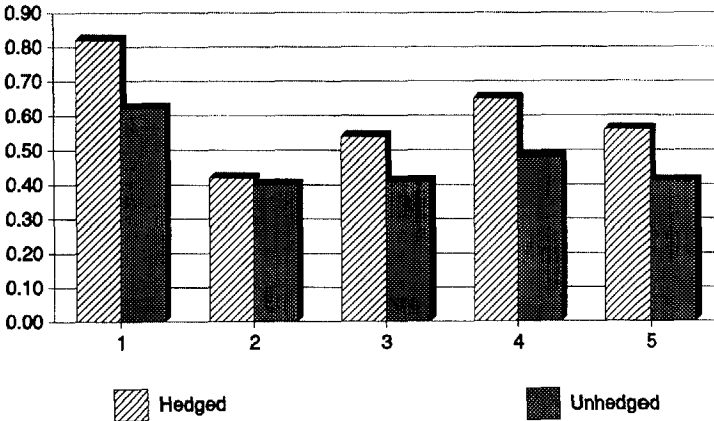
hedged bonds are. But, also notice how low, in general, bond returns are -- a pretty disappointing asset class.

CHART 4
Historical Risks: Non-U.S. Bonds



- | | |
|---------------------------|-------------------------------|
| 1 Ennis, Burik, 78-87 | 5 Goldman Sachs, 75-88 |
| 2 J.P. Morgan, 78-91 | 6 Manager #1, 75-91 |
| 3 Merrill Lynch, 78-88 | 7 Manager #2, 78-89 |
| 4 Salomon Brothers, 78-88 | 8 Boston International, 78-92 |

CHART 5
Historical Correlation of Non-U.S. with U.S. Bonds



- | | |
|------------------------|-------------------------------|
| 1 Ennis, Burik | 4 Manager #1, 75-91 |
| 2 J.P. Morgan, 78-91 | 5 Boston International, 78-92 |
| 3 Merrill Lynch, 78-88 | |

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One of the reasons foreign bonds are attractive is there are some strategies that can produce fairly substantial returns above what the indexes show, which is not true in the domestic market. It is a very exciting area and I think unfortunately most insurance companies have invested their assets in the domestic U.S. market which is the most efficient capital market in the world.

This is the correlation and there is a diversification argument. Jim brought up the issue of cross hedging and if you are willing to cross markets and use risk and return to one market to add return and offset risk in another, then you want to think about the correlations. Foreign bonds are not highly correlated with domestic U.S. investments.

Table 3 shows our non-U.S. index versus global bonds, the Lehman aggregate, Europe, Australia, and Far East (EAFE) and S&P 500. I just draw your attention to the last three. The correlations are low with respect to the domestic fixed market, the foreign equity market and the U.S. equity market. So, there is a lot one can do from a portfolio point of view of minimizing risk and adding return through diversification.

TABLE 3
Correlation of Major Asset Classes: 1978-1992

Asset Classes	BIA Index Non-U.S. Bonds	BIA Index Global Bonds	Lehman Aggregate Bonds	EAFE	S&P 500
BIA Index Non-U.S. Bonds	1.00				
BIA Index Global Bonds	0.84	1.00			
Lehman Aggregate Bonds	0.39	0.81	1.00		
EAFE	0.65	0.53	0.22	1.00	
S&P 500	0.07	0.21	0.33	0.43	1.00

Chart 6 is a typical pension plan allocation. It is kind of boring. It shows foreign equities, U.S. stocks, real estate, U.S. bonds and cash. You can see a huge component is U.S. bonds. The point is what does adding foreign bonds do to that. It essentially involves the replacement of a good portion of the U.S. bond portfolio with foreign fixed income.

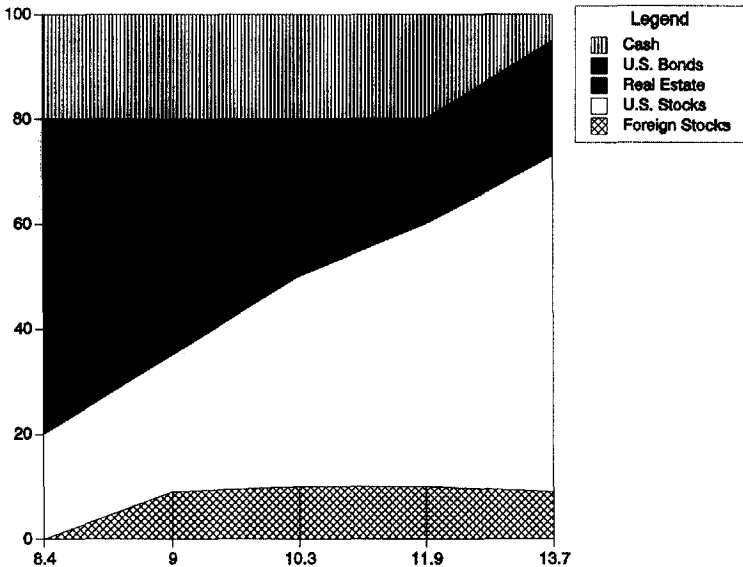
So, this is another example of the diversification you see in a pension plan. You would certainly see this in an insurance company portfolio. Thinking of an efficient frontier that represents risk return tradeoffs, it allows you to improve things dramatically.

I would suggest, though, that most insurance companies do not begin from the enlightened view of a pension plan, and that equity investments and certainly foreign equity investments are rare, to say the least. So the improvement of introducing foreign bonds would be much more dramatic in an insurance company portfolio.

The history is very short in emerging market debt. When I was at John Hancock, if we did not study things for at least five years, it just was not right. So, something like this is probably not even in its purview right now. There are only about three years of history, yet this has been in a very exciting area.

Looking at risk and return they have been a substantially spectacular performer in dollar-denominated debt, not that this is necessarily representative of the future. It is just the idea that there is an opportunity, plus they have a dollar-denominated instruments that allow you to hedge liabilities in the various countries. I do not think Mexico, Venezuela, Brazil and Argentina are particularly exotic countries from an insurance point of view.

CHART 6
Typical U.S. Pension Plan Asset Allocation
Portfolio Composition



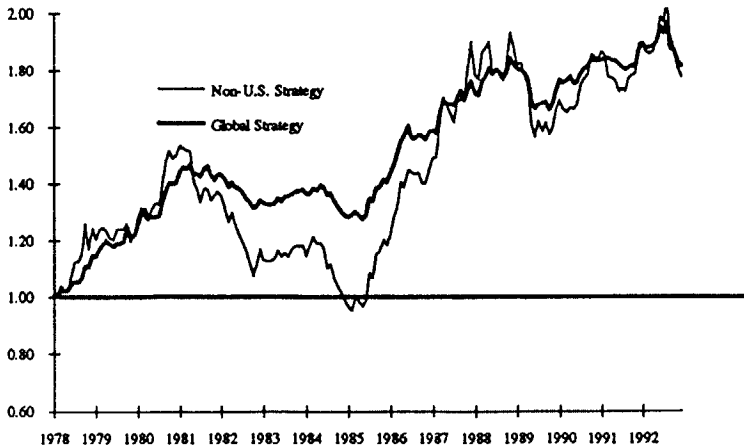
One of the things we have done is recognize that insurance companies in general use domestic benchmarks. So, the question is, can I go overseas and invest money? In the end, I want to do better than I could have done domestically and that is the reasonable test.

So, what we have plotted in Chart 7 is one strategy that one could follow. Again, I would emphasize that the foreign strategies available are much more exciting than the domestic ones. Chart 7 shows the relative performance of this particular strategy versus the Lehman index. The idea is that upper sloping line means that you are out performing. When the line slope turns negative then you underperforming and the volatility of this line represents, to some degree how much risk you are taking. I think you can see the lighter line is using a non-U.S. type of benchmark and there are significant periods where you do much worse than domestic investment which might

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be unacceptable to an insurance company. But, with a global benchmark it is much smoother. So, the point is that you cannot get extra return without some sort of risk, a tracking error verses your benchmark. But, these are manageable things in the international market.

CHART 7
Relative Performance Versus Lehman Benchmark
For the Fifteen Year Period 1978-1992



	Non-U.S.	Global
Average Annual Return Advantage:	3.92%	4.07%
Average Annualized Tracking Deviation:	11.11%	5.52%

So, why consider this asset class? Well, in the developed markets there clearly is tremendous segmentation. Local investors tend to stay local. They do not arbitrage opportunities across borders. You can improve the efficiency of your portfolios. It is the largest capital market in the world. There is not a good reason for ignoring it, but most people do and it represents an AAA-rated universe. Now, you might argue that is not in the spirit of ratings, that in fact, the credit rating is strong for a country issuing in its own currency, the rating agencies are really trying to get at volatility. But, in any event, it is AAA-rated.

On the emerging markets, you can structure portfolios without foreign exchange risk, which is a very exciting opportunity. Many of these are collateralized with U.S. government bonds, meaning that the principal is fully guaranteed. Efficiency is a strong argument here as well. These are not highly correlated with anything else. Volatility is relatively low as was mentioned earlier. The idea of emerging markets becoming developed markets – Jim mentioned real rates actually declining – is something we believe will happen. This represents really a transitory opportunity to take advantage of the fact that South America, in particular, is becoming a much more developed market.

Why now? Yields are very high. The emerging markets have the highest yields in the world. They dwarf the U.S. junk market. There is an approximate 200-basis-point yield of maturity difference between the emerging market bed and the U.S. junk market, which is where many, many companies are investing. The number of markets is broad. The possibilities for diversification are sizeable. Transaction costs, which should be a big question for anybody investing in these markets, are very low. They are like our agency markets. So, you are not paying a lot to get in or out.

There are a lot of derivatives that permit investment in the interest rate market without taking currency risk. They also permit very efficient hedging. Straight settlement generally is book entry for these countries and there is a fair diversification of risk.

So, where does the future take us? We think these are opportunities that will not be here forever, that there are more investors coming along and the competition will remove the dramatic opportunities that exist. We will see more improvement in the markets, more instruments, and more derivatives. The management tools are generally unsophisticated. Most of the people who manage money in this area are making judgmental forecasts. We think technology will change and there will be more systematic processes. The markets are going to become more sophisticated, and as derivatives broaden, they will become less and less inefficiently priced.

Finally, the idea of combining stock and bond portfolios has a lot of appeal in both the developed markets and the emerging markets and it is something that I think people will look to.

MR. MOES: We have time for one or two quick questions.

MR. STEPHEN T. CLINTON*: This is either for Jim or Jan, I suppose. What do you think about the comparative value of going into a market on a joint-venture basis as opposed to an independent basis? You both alluded to that topic, but could you just expand on that a little?

MR. BRIDGEMAN: There is not one answer. It will vary from market to market. We have a strong feeling about control. Now, we violated this a few times, not always to our regret, but the idea of having a local partner, where ultimate control is with us, is something we like to have. As I say, we do not always get that. But, the problems that could emerge from truly joint double veto kinds of management can just be enormous. So, that is something to watch out for. But, the local entity is often just essential. So, we favor the idea of joint venture.

MR. JOBE: I would pretty much agree with that. We are strong on the control side, too, although there are a lot of markets where the local partner is a tremendous asset if you both have the same strategic direction and the same perspective on things. We favor start-up operations primarily because we can build them the way we want them.

* Mr. Clinton, not a member of the sponsoring organizations, is Director of International Underwriting with Lincoln National Life Insurance Company in Fort Wayne, Indiana.

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In some of these countries the current companies have a lot more employees than they need to have. Do you really want to enter a market and let a bunch of people go? Can you let the people go? What does it cost you to let the people go? Those are just a few of the issues. How much rebuilding do you do? Our example in Spain, where we actually started out in a joint venture, evolved in a full acquisition, and eventually had to rebuild that company; it took us more time to do that than it would have had we started from scratch!

