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Passport to a New Country

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Summary: Why are nontraditional techniques required to enter a new country? Entering a country without any insurance delivery systems, or even with existing delivery systems, may require approaching markets in a more nontraditional manner than is customary for many insurers.

Mr. Edward F. McKernan: There is a greater and greater awareness of companies confronting and moving toward global expansion. Many of the major industry periodicals focus on global expansion itself and what companies are doing globally. You didn't see that several years ago, but now there are whole sections dedicated to the global economy, the North American Free Trade Agreement, and the Asian market. A couple of companies I work with are very active and aggressively expanding internationally. The CEO of one company has the charge to open up two new countries a year, which is a fairly aggressive plan. What's quite interesting is that this organization goes in and uses Greenfield operations to set up shop. Another organization is entering into joint ventures and through acquisitions. They have completely different strategies and both have been very successful, although a few of these companies still wonder what's going to happen over the long term. Nonetheless, they have been very aggressive at expanding and have approached the markets in quite different ways.

We will be sharing experiences of several individuals, and what they've encountered in establishing operations for various insurance enterprises as well. The focus of the discussions will be three pieces. The first takes a look at a lot of the different types of considerations where you are, taking a look at the country you're in, the cultural considerations, the regulatory hurdles, and the environmental considerations. John Nigh, who will be presenting these materials, is a principal in the Atlanta office of Tillinghast. He is responsible for Latin American operations in Mexico City, Rio de Janeiro, and Buenos Aires. His areas of expertise also include mergers and acquisitions, reinsurance, underwriting, and financial reporting.

The next area we're going to look at is opening the door for business, taking a look at distribution methods, compensation structures, product evolution, and competition. James Liu will be

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presenting these materials. He is the president and CEO of AEGON in Taiwan. Previously he has a vice president chief financial officer (CFO) of ManuLife in Taiwan from 1992 through 1994. Prior to that, he was a director of international insurance operations for Prudential Insurance Company of America, and he was largely responsible for expanding operations in Korea, Taiwan, Spain, Italy, and Japan.

The third order of business is how you take care of all this business once you're in a country and you open the door, assuming of course you're going to have business flooding through the doors once you open them. Making this presentation is Paul Turner, vice president and life actuary for Aseguradora InverLincoln in North America who has been living in Mexico City with his family for the past last three years. He has been involved in numerous bancassurance joint venture negotiations, and has also worked two years as Lincoln National Corporation's CFO in Mexico in their bancassurance operations.

Mr. John O. Nigh: I'm going to be speaking to the cultural considerations that I think you need to be attentive to when you consider entering a country and as you operate in that country. I'll briefly speak about the regulatory hurdles as I see them today in a general sense, and relate some experiences that I've encountered and learned along the way. Finally, the environmental considerations that you need to be cognizant of while you're considering entering a new country and while you're operating in that country.

What I've experienced is that the foreigners that come into the country encounter four basic problems. First, a one way mentality in dealing with the locals; that is, the thought process that goes something like, why doesn't everyone do it the way we do it in our home country? Second, language insensitivity. In my case, English insensitivity. I recall going into some of my earlier meetings particularly with government authorities, and being so frustrated that they would not or could not speak English. Looking back on it, I now realize how naive and insensitive that was. Third, impatience. We Americans tend to thrive on quick decisions or a process that gets to a decision much more quickly than what you'll see in most of the other cultures that at least I do business with in Latin America. Fourth, presumed superiority, an attitude that not only speaks to why don't you do it the way we do it, but we obviously do it much better.

What should you do to try to minimize these problems and, therefore, maximize your success of developing business relationships and a successful operation in the country that you establish ties in? Well, start out by learning a total environment: products, sales practices, industry reputation, workplace, and hierarchy. Understand what the products are, because these can vary greatly. For those of you who know Mexico, the products look a lot like what we have in the U.S. aside from a few adjustments that deal with currency or inflation indexation. For those of you are familiar with Brazil, at least up until recently, their products look nothing like what we see in the U.S. Who controls the sales process? What has to happen for a legal sale to take place? What's the reputation of the industry? Is it perceived as a strong industry? Is it perceived as a fraudulent industry? What is the reputation? As with any country, you have a workplace culture but within those countries, those companies also have their own subculture so you need to learn what sorts of cultures exist in the workplace. Finally, what is the importance of hierarchy? This does relate to the decision making process.

With respect to the other language issue, after I decided that it was pretty naive for me to assume that the individuals I was visiting should be speaking English to me, I realized that I should go ahead and try to be comfortable with the fact I didn't know what was going on, and have someone with me who could either give me some translation as the conversations took place, or wait until after the meeting to give me an update. In other words, get the translation later, and, of course, throw in a few words of, in my case, Portuguese or Spanish along the way to make the person whom I was visiting more comfortable with my presence.

These cultures have a different decision making process. You need to be patient with that process. You need to recognize that things are going to take time, and that a total process has to be followed before a binding decision will be made. Therefore, don't try to force solutions or ideas; it just won't work. Also, I've seen business fail in these countries because the companies have either hired only locals or they've only brought in expatriates. The successful ventures have done a combination of both. I can point to an operation in Argentina in which the foreign company that had made an investment in a local operation relied totally on a local. Thirty million dollars of losses later, they realized that they probably should have had more oversight. I can also point to the opposite where just putting in an expatriate for a company in Mexico also resulted in failure, so joining up makes a lot of sense.

Regulatory hurdles have changed quite rapidly over the past four or five years. This has been generally favorable for legitimate operations, but this does not bode well for companies that have historically relied on offshore sales in the foreign countries. These offshore companies are gradually being forced to go local or withdraw. Some companies still do not grant new licenses such as Brazil, but availability still seems to be OK. Argentina up until recently did not grant new licenses, however, availability was OK. They have recently, however, changed their regulations to allow for Greenfield operations or formation of new companies. Brazil, while it does not grant new licenses, did, when Fernando Henrique Cardosa was elected into office, have the Attorney General, either by request of a foreign operation making an acquisition or by presidential mandate, adopt a different interpretation of the law, which had historically limited ownership of local companies by foreign companies. There are ownership limitations either effectively or by regulation. When I say effectively, oftentimes in these countries, at least in Latin America, the companies will be owned by one very rich individual or a limited number of shareholders, and it's very difficult to affect a majority ownership. By regulation, for example, in Mexico for a Greenfield operation, up until the year 2000 ownership is limited to something less than 100%, but that does phase out after 2000.

More on regulatory hurdles. You need to be aware of the investment limitations. For Mexico, only 25% of the investments can be in dollar denominated securities. By location, most of the countries do require that a significant majority of the assets be held and invested locally. For example, Chile requires 90% availability of investments. I think this is very important particularly for those countries that have privatized their social security schemes, which include Argentina, Chile, Mexico, Costa Rica, Uruguay, Peru, and Colombia. Long-term investments in support of these annuities are either not available or scarce, and the whole issue of being able to immunize yourself on the liability risk becomes very important. Product differences. Brazil I think is a unique case. One of the most popular products in Brazil would probably be illegal here. It's effectively a lottery product that has no mortality or morbidity risk embedded in the product, but it's very popular. Selling requirements. Brazil requires that a broker be the signature on any application and sale of the product. I'm sure Paul could talk to the bancassurance issues that banks face in selling insurance, and the signature or agency involvement that's required there. Chile is a little bit more complicated with their newly regulated bancassurance legislation. The ability for an insurance company to affect sales to a bank's customer base has been made available or opened up, but the process is quite complicated.

Environmental Considerations. A change in an election or a change in party as a result of elections can be destructive to an industry and, in particular, to the insurance industry.

Privatization or reversed privatization can occur as a result of elections. Open market policies can be restricted or opened up as a result of elections. I think by and large what we see today in Latin America, at least, is a continued move toward privatization and a continued opening of the markets, but, again, this could change with socialistic governments being elected. These economic problems such as unemployment and widespread social dissatisfaction such as what we have seen in Chiapas, Mexico can drive political changes. By and large, as I said over the last four or five years, we've seen dramatic changes occur in the political environment.

Finally, economic stability. If we go back in time, we can look at the Argentinian insurance market. The economy of Argentina was number 9 in the world in 1940, and it's something in the lower 50s today. At the same time in 1940, its insurance market was one of the most sophisticated in the world. With the hyperinflation that it experienced since then, the life insurance market was virtually destroyed. Since the dollar plan was implemented in 1991, we now see a resurgence of what we would call traditional insurance. Mexico, on the other hand, did experience hyperinflation, but they were able through either luck or vision to preserve their market through product innovations that protected investors from currency devaluations and inflation. Then there's the currency risk, which includes both devaluation and change. Brazil, if you know the situation, has gone through something like five currencies since 1988. Mexico has seen two significant devaluations in the last eight years.

These are issues that you need to be very familiar with and evaluate so that you're comfortable with the risk of making an investment in a local market.

Mr. McKernan: John, let's say if you're a potential investor entertaining the idea of entering a country. You'd be looking at the various laws and I guess the stability of those laws. You talked about political changes protecting your investment. You're going to have the stability when you're going in, but how will get you your money out? If that event does arise, that's definitely going to be different, for the sake of argument. Is that something that companies tend to spend time carefully evaluating beforehand?

Mr. Nigh: Well, certainly they evaluate it thoroughly, and there are two issues. One is the ability to repatriate your money through dividends, and whether or not that's possible under current regulation. The other issue that you really can't control, is what happens if there is a change in the government and the new government decides to localize the industry? By that I mean having locals own the majority control of the operations. That I think presents some problems in and of itself that you can't predict. You can only try to get comfortable with whether or not the government would change hands and then, if it would, what's the likelihood of that occurring? In some cases, that means it's a bet.

Mr. McKernan: I guess in the evaluating, you're looking at these different risks. You have the economic risk, these political changes that could be occurring and inflation. I would think by that same token, you'd want to or have an expectation of fairly significant profitability in entertaining that when you go to a different country. Is that something that companies are very proactive in assuring favorable profitability on products themselves, or is it more a matter of being in a position to take advantage of markets when they do come?

Mr. Nigh: I think it's both. In the case of the former, though, a rational mind would say that while profits currently might be very attractive and certainly attractive from a mature market perspective, I think it's somewhat foolish for anyone to assume that that would continue long-term. I think the rational company would certainly not expect that long-term. In terms of how you enter and on what basis, I've seen companies going in on a very piecemeal, small investment basis and they get what they pay for in the sense that if they ever achieve critical mass, it will be a long time in coming. I've also seen other companies come in on a very big basis forming joint ventures with a significant local partner, either a bank or an insurance company, with the expectation that they will have a successful operation given the social demographics of that country. The current population distribution and other factors such as low insurance penetration in growth and the middle income and a redistribution of wealth it would all contribute to a more positive and growing insurance market.

Mr. James Liu: I would like to share with you my experiences in marketing in several countries in this world.

As John just mentioned, there are cultural differences and environmental differences in different countries, but there are certain basics or fundamentals that are universally true everywhere in the world, which I call the marketing 5Ps: product, price, people, promotion, and place. Because we are in the insurance business and the business of building relationships, I always like to put people in the middle. When you go outside of the U.S., especially in my years of experiences in dealing with salespeople, you always fear that, well, sometimes it doesn't work here in this or that country. Sometimes it is true but most of the time it is not true, which we will cover later, but I can summarize by saying that professionalism and integrity are universally true everywhere in the world. If you apply those principles and if you stick to the marketing basics, which is basically customer-driven marketing, then you have a good marketing framework in place. When we talk about traditional or nontraditional marketing it's kind of a narrow definition, but one thing that should be clear is that traditional techniques in country A may not be traditional in country B and vice versa.

The mature and sophisticated markets include for example, the U.S., U.K., Japan, and Australia where consumers are more sophisticated, educated, and demanding. In the growing but relatively unsophisticated market, for example, Hong Kong, Singapore, South Korea, and Taiwan, insurance there is sold, not bought. In what we call new markets, such as the Philippines, Malaysia, and Thailand, insurance is not needed or affordable or cultural barriers prevent purchase. Your distribution approach pretty much depends on the level of consumer awareness of insurance needs. The more sophisticated the market, the customers are more aware of their insurance needs; therefore, they are more demanding. Your distribution approach may vary, depending on where the market is at. For example in China and Indonesia, China is growing but still in the minds of consumers, insurance is not needed or if you buy the insurance, it's bad luck, or even though the consumers feel it is needed, it's not affordable.

In this kind of a market, if you have a distribution force, pretty much traditional agency force, and if you're a traditional agent who can remind the customers there of the need of the insurance, then you have a good chance to make the sale. While in a mature market like the U.S., your agent likely does not need to do too much of reminding of the need of insurance because people are pretty much aware of it. The selection of whether a case will be sold to a prospect depends pretty much on how professional the agent is, and whether the agent makes a good recommendation of the products. Product comparisons are very important. You need professionally analysis to approach the market. Also, the degree of customer awareness of insurance needs has an impact on your product design. In this kind of market, travel accident or accident insurance is a good door opener because it is cheap. It depends on where your market is. You may have a different distribution approach, tied agents, independent financial advisers as in the United Kingdom, or a salary sales force. Five or six years ago, salary sales forces were very popular in Taiwan with some local companies. You could have banks selling insurance for you from different companies or strategic alliances. For example, some of the convenience stores in Taiwan had brochures on the counter at 7-11. I don't know who would buy insurance from 7-11, but you can have some strategic alliances. Also, some countries in Asia are experiencing direct approach, direct mailing, call centers, and Internet marketing.

Although I worked in Spain and Italy for only a short period of time, my experience is pretty much in Asia, so I concentrate on Asia more. The two key elements are a customer need awareness and the complexity of the product. You can have simple products like pension and employee benefits, and more complicated products such as risk products. Investment products in most of the emerging markets are usually very popular and easy to understand. People want to save their money, but consumers are not sophisticated and that's why in many Asian countries, endowment or anticipated endowment products or products with reversionary bonuses are very, very popular and dominate the market. It is easier to sell investments than to sell protection products. I think that's universally true everywhere, but you see this as a protection product. If the insurance company is doing a good job, then it would bring up the customer awareness of the needs of the insurance. Usually when we experience bancassurance in Asia, bancassurance has the tendency to focus more on investment or savings related products. Mortgage insurance does not generate a lot of premiums for bank insurance. It's usually annuities and permanent products.

Again, we always look at the need of customers or a customer awareness of the insurance need. If you have protection products, a customer has low awareness. You pretty much need tied agents to approach a market and sell the product to them. For a singular product, you could consider work site marketing where you can get a better economy of scale. If the degree of awareness is significant, then you can use a telephone or bancassurance approach. In my opinion, that's the right way to look at the marketing approach. It depends on your market situation. In new markets like China and Indonesia, and, to a great degree, Philippines, Malaysia, and Thailand, traditional agency force, is still the dominant distribution force because the degree of customer awareness is low. You pretty much need agents to remind the consumers of their needs. In growing markets, the agency force dominates. We call South Korea, Taiwan, Hong Kong, and Singapore the four tigers. The agency force dominates nearly 90% of the market. Bancassurance and direct mail are getting a larger share of the market, but still less than 10%.

Just to give you a quick overview of what's happened, I only got the data from 1996, U.S. For the individual life insurance first-year premium, tied agents produced 49% of the business and independent agents and brokers, 2%. Security firm banks only had 7% of the market. I believe this is growing, but only for the individual life insurance business. Traditional agents still have the lion share of the market. But if you look at what's happened in the U.S. for individual annuities, security firms and banks together generate more than 50% of the market, while agents and brokers only produce less than 50%, but that's in the U.S. In Asia, as I said before, most of the business is still produced by traditional agency force, but the direction of change we discussed before, is similar in most of the countries.

I want to spend a little time talking about bancassurance in Asia because this is a rapidly growing area. There are some successes of bancassurance in some Asian countries. For example, May Bank in Malaysia and the Hanson Hong Kong in Singapore and Indonesia. In those countries, the regulatory hurdles for banks to get involved in life insurance business is not as restrictive as those in China or Taiwan, but there are some bancassurance activities in Taiwan. Right now, our company, AEGON, and Citibank and American Express are selling insurance products to credit-card holders. Those products could include personal accident, travel accident, and mortgage insurance and term insurance or very basic health insurance policies, such as hospital indemnity policies. Also, some local banks, Fubon Bank and E. Sun Bank, sell mortgage insurance. Some banks have life insurance agents. The life insurance company has a representative in the bank branch, and customers are referred to the life insurance sales group tended by the bank tellers if they need to talk about insurance coverage.

That's pretty much the overview of life insurance marketing in international markets, but, again, as I said before, there are a handful of things that are universally true no matter where you go that are basically customer driven. It's the need of your customers that determine your distribution approach, and in order to do a good job to meet the need of the customers, you always have to be very professional no matter which distribution approach you take, and you always have to have flexibility to change especially in the growing or new markets because the speed of change is very, very fast. We believe that professionalism in marketing is a key to long-term profitable growth. By professionalism I mean integrity and ethics, competence, and attitude. About the integrity and ethics, I want to emphasize this is a worldwide standard. You cannot say, "Well, so-and-so market, I use this set of standards for integrity and ethics," and go to another country and say, "Well, there is so much corruption and fraud here, therefore, I will lower my standards." It doesn't work that way. In conclusion, I'd like to share with you a remark shared by marketing people: When the rate of change outside exceeds the rate of change inside, the end is in sight. This is especially true for marketing in the international arena.

Mr. McKernan: Regarding the acceptance of various forms of distribution systems, especially in developing markets, does it tend to be a trial and error type approach, or do you find that the populace tends to accept different types of distribution in the manner of what's available as an entree, credit cards for example? I guess that might be a natural distribution system that would fit well in those environments where credit cards are used predominantly, but in other environments you have to use a different type of distribution system. Whatever the mechanism, does it tend to be acceptable?

Mr. Liu: When you're entering into a new market, there's always a certain degree of trial and error unless you do what most of the Japanese companies do, which is to watch the marketplace for 20 years. They send a research team there for 20 years, who basically do nothing but collect marketing information. I know that because one of the largest insurance companies in Japan, rented the whole floor of a building in Taipei, which is very expensive by the way. They were there for almost 20 years. I asked their chief representative what they were doing there. Marketing research. I asked when they planned to do business in Taiwan because Taiwan at that time was not opened up for Japan. They don't know, but they still do the research there. Most of the companies I know of when they expanded into other countries, their initial focus was to get a license. They then did a little bit of marketing research and planning for one to three years. Really that's not enough time to do a good job in deciding your marketing approach. At the very beginning, you always have a little bit of trial and error, but if the general direction is good, it should be all right.

Mr. McKernan: I guess part of what I'm wondering in a sense is, do companies find generally better success using tried and true distribution methods, or do they find greater success in entering countries with an established market instead of a new distribution channel that might be a paradigm where nontraditional in one country may be traditional in another and vice versa? Is there an existing distribution system where new companies enter the market using a credit cards? Do they find opposition or are they actually able to garner some market share using different types of distribution?

Mr. Liu: If we're talking about successful marketing companies, especially in Asia, the best example I can think of is AIG. AIG is the best and the most successful company in Asia.

They've been there for a long, long time, and they have 20% of the market share in Taiwan and more than 50% of the market share in Thailand. They were the first company to get a license in China, and they're making money. Most of their profit comes from Asia, and their profits last year was $2.6 billion U.S., which probably ranked them number one in the world. The distribution approach, especially in Asia, is traditional agency forces. They have been experiencing some bancassurance and joint venture with mutual fund companies and so on. Although AIG, uses traditional agency force, they adopted the U.S. traditional agency approach in multiple Asian countries. At that time, that was new, and nontraditional. Most domestic companies use a part-time sales force. For full-time sales force, they provide some very low basic salary, but it was AIG who introduced the U.S. agency structure into those markets. If you are a newcomer in the marketplace what kind of innovative or paradigm-shifting distribution approach, can be found in those countries? I don't know. I guess it's still agency building and bancassurance.
Mr. Paul F. Turner: I think I'm repeating a lot of the concepts that I'm hearing. In a sense, that affirms that in various different markets around the world, we're all gaining the same sort of experience as foreign companies entering into new markets. The first comment again is that nontraditional techniques could be different from the point of view of the foreign entrant coming into the market or even the local market. I'm going to talk later in this discussion about bancassurance in particular.

The attitude "it's worked this way in other countries" is not the approach to take when entering a new market. I think we're all hearing that being hammered into us again and again. You need to understand the cultural and economic settings before you make changes the way you're used to in your home country. I found it very helpful to have lived in Mexico for three years. I went through a crawl and then a walk, and now I think I'm getting to the running stage of knowing how to do business in Mexico. If you can't take the time to appreciate the local culture and the language, and to understand why things are the way they are, you're probably going to be packing your bags and coming home in a short span of time. What I'm going to talk about particularly is the areas of underwriting claims, policy, delivery and collection, and the systems and communication in foreign markets.

First of all in the area of underwriting, protective value concepts that we use in the U.S. may not work so well in some developing markets. There's the issue of lack of credible, high-quality information regarding clients. Traditional analysis of the cost benefit relationships or certain underwriting tests, i.e., do I do this test at this underwriting or this face amount level? is something that obviously works very well in a country like the U.S., but in some developing markets you have to ask yourself, is the information I'm getting credible? Is the process being followed the way that it works in the U.S. so that you get the same types of value for the testing that you do? In terms of a social contract, some people in developing markets may not see anything wrong with checking the no box on an application. They may see it as, "What do I have to lose? If they catch me, they catch me, if they don't, then my beneficiary gets a large contract." Often the agent fills out the application. This is something that I've seen again and again on a personal basis, so you have to check the signatures. You can often find that an agent has filled out an application just by looking at signatures.

Again, the insurance culture is undeveloped. I was interested to hear John Nigh talk about the lottery product in Brazil because in Mexico, that had some success as well. It's an effective marketing tool to tell somebody that you have a chance of winning a large sum of money rather than saying, "You're throwing your money into a product every year, and you may never see any result from it." It's a shade different in terms of the selling, but it is actually a very effective approach when people don't have a strong insurance culture. This is the same concept that James brought up about savings products. Again, with people with a lack of insurance culture, it's very important to say, "You may get something out of this product whether you live or whether you die." There's a greater certainty to making an investment in an insurance product, but still what I found in Latin America in particular is that people have a very short term mentality in the area of investments. Their thinking is, why would I put money into something now when I can't get that money out for five or ten years, and even if I wanted to wait that long, is the insurance company going to be around to pay me my money? Those are all things that a lack of insurance culture and perhaps track history in some of these countries cause people to believe.

In terms of Mexico, there's a person called El Sancho, and, again, this is a different way of thinking than what we're used to. El Sancho is the person who basically marries your wife and spends your money after you die. Why would you want to buy insurance and make your wife a wealthier woman? Again, these are the kinds of things that point out differences in some of these countries.

In terms of further comments in underwriting and claims, I'm not a lawyer, but I've heard some people discussing the issue of civil law versus common law. In many developing countries in Latin America, civil law is the way that the legal system works. There's less emphasis placed on insurance contracts or contracts in general versus the interpretation of a judge and the laws that exist in that particular country. You may find that you have less of a strong base to stand on with an insurance contract, and you may find yourself paying claims when you think you shouldn't. Even if the contract clearly states that something is not covered, the judges can just put that aside, look at the laws, and say, "No, I think in this case that the claim goes forward." Corruption and fraud plays into that as well, especially at the time of a claim, but also in the underwriting stage, people answer no when they really mean yes. You find that with lack of credible information, you can't just go and check medical records in many of these countries. There are a lot of fraudulent attending physician's statements. As a foreign insurer, you have to understand the lay of the land before you're ready to issue products and you have to avoid the involvement of the police like the plague.

I'm going to tell you a personal story. When I first moved to Mexico, one of the things that I noticed was they had beautiful boulevards there; long, tree-lined boulevards with what they call gloriepas, which are circles similar to the ones in European cities. Around these circles, you see a lot of Volkswagen Bugs or motorcycles. All the people who are in these cars or on these motorcycles have uniforms on for major insurance companies that are in Mexico. I asked somebody, "Why do they have these people sitting here basically in various locations throughout the city?" The answer was, in auto insurance, unlike the U.S., where if you get into an accident, you may need to call the police or exchange some data and the police officer writes a report, you go to your adjustor later, take the car to the garage or whatever, and get it fixed, in Mexico, what you don't want to happen is for the police to show up. If they're there, then you're just going to end up paying bribes, and they're going to be troublesome in terms of settling the claim. What you do want is your insurance adjustor, your company, to get there as soon as they can and help you out in the negotiations. Basically, people are stationed throughout the major cities and as soon as they hear of a claim, they go rushing off on their motorcycles or their Volkswagen Bugs and get to the site of the claim. I actually had this experience when the police got there first. They took my license and I ended up paying a huge bribe. The insurance agent got there about 15 minutes later, but he was too late to help me. Basically, you have to understand the way the system works and make sure that your processes maximize the effectiveness in that local situation.

In terms of policy delivery, mail service is not as reliable. Here's another great analogy or anecdote that I can tell you. I got an urgent call from my wife probably in the first month or two after moving to Mexico. I was just barely speaking Spanish at the time, and she was speaking very little Spanish at the time. She said, "The electric company is here to cut off our power." When I asked why, she said, "I don't know, you talk to them." Being on the phone is even more difficult than trying to speak to someone in person. Basically, they said, "Well, you didn't pay your bill." I said, "We didn't receive a bill." We we're used to just getting our bills in the mail, writing a check, mailing it off, and it's all taken care of. Well, not getting your bill in Mexico does not relieve you of the responsibility of paying your electric bill. What we now have to know when the bill should arrive. When it doesn't arrive, which is practically all the time, we have to go down to the branch, stand in line, and with cash pay our bill right at that very moment. If you do get mail, it could be a week or a month, you just don't know, and for running a direct mail campaign, that's horrible.

Some clients may or may not have a phone. That's something that we typically don't have to deal with, and basically a small or average size policy just makes it much more to effective to sell, deliver, and serve these policies. One last point on the mail issue. Some companies like American Express, for your typical monthly credit card bill, actually have a courier service that delivers those bills to your house rather than relying on the Mexican mail service. You have people who live in smaller areas and they have an address that says, S/N. S/N stand for, Si Numero, which means they don't really have a number address, they just have a house that the mailman should know about, or they'll have Domicilio Conocilio, which means your house is known to the mailman so you don't have to put any more data. Those are just some differences that you face.

In terms of collection in a cash-based society, we basically live with automated teller machines (ATMs). There are lots of ATMs. They're very popular and successful in Mexico. You don't just pop a check in the mail. I don't think I've written a single check in Mexico in three years. The use of credit cards is becoming very popular, and checking accounts for collecting bills are becoming popular as well, but again you must be aware of some control issues. Are there funds in the account? Can you do anything to have a two-way conversation with your client about their accounts? Again, often people buy out of personal obligation in a lot of these countries. It's better to say yes at the moment, but they really mean no, and when you find out about that it's the time when your policy's not taken or it lapses in the first few months, and those rates are all much higher than what we're accustomed to in the U.S.

In terms of systems, I don't have a whole lot of negative comments to say about Latin America. I think this is one area where because of rapid introduction of technology and lowering costs, I've been very impressed with how these companies are set up in terms of communication. The Internet is widely used. Training is implemented over television links within banks, which is where I have a lot of my experience. Again, there's a shortage in skilled resources as in a lot of countries that we're used to.

I've told you a little bit about the experiences that I've had, and what some of the differences and problems are. I'm going to give you, at the risk of sounding oversimplified, what I consider to be an excellent way of reaching the market in these developing countries. That is bancassurance, and I'll explain why. It's seen by a lot of foreign entrants as well as local banks as a way to solve many of the problems that I just discussed. Banks serve everybody basically except the poorest people in these countries. You can build an insurance culture by selling a proper product to a specific targeted segment of the bank. In effect, you can make the pie bigger for insurance in a lot of these countries. Again, if you're increasing the size of the pie, hopefully we're talking about lower underwriting risks and claims risks. Again, I'd rather have a million bodies rather than 10,000 bodies being insured. It's just helpful for spreading out the risk as well as increasing the size of markets in these countries. Banks have several relationships with their client. They should know them better than anybody.

In terms of policy delivery, people visit bank branches frequently. I probably would go once a month or once every few months in the U.S. I'm at a bank branch, often in line, probably two times a week in Mexico, so you see the same people over and over again. There's lots of contact with people. Banks have many, many points of sale, so they can be closer to a client on a more cost-effective basis than a traditional agency approach. It also goes a long way to solving the mail and telephone problems because, again, you don't have to rely so much on those if you see your client frequently. The goal basically in bancassurance in a lot of these developing countries is to issue product while the person's standing there and let him or her walk out with the product. If you can't do that, short of that, then you may, especially if it's a little bit more sophisticated product, have to try to at least let them walk out with something of substance. Again, it's very hard with an insurance culture that's practically nonexistent to sell somebody and really sell them even if you're going to collect the premiums if they can't feel what they really have in their hands at the time of sale.

In terms of collection, again, although other companies are able to make arrangements with credit card companies or banks with checking accounts, isn't it better if it's your own bank that has sold the policy through their bancassurance company and has secured the accounts? Again, there are legal issues that you have to work through. As John was mentioning, in some of these countries, the law permitting, if you can be more proactive with the collection process, you have a much better chance of getting your premiums paid. In terms of systems, again, bancassurance is a great solution. They have first-class systems. It doesn't matter what country you're talking about—it could be the U.S., Canada, or Europe. There are banks in all of these developing countries that can rival any first-world country in terms of quality of their systems in communications infrastructures. I remember in the first bank I worked in Mexico being introduced to their communications room, and there's just a whole panel of large computer screens monitoring all these different points around the country where they have their satellite links, and I was just shocked at how advanced this was. By offering several products, banks are able to maximize the economy of scale, whereas a traditional insurance company would find that much more difficult. When you're talking about a country that has a much smaller Gross Domestic Product (GDP) than, say, the U.S. and they have about a tenth of the insurance as a percentage GDP as the U.S., you're talking about a very small marketing component. You have to find ways of doing it more efficiently. What you see right now is a lot of traditional agent companies fighting for the same 5% of the population, which is a zero-sum game. But if you can tap into a larger pie through bancassurance, you're going to find that you can spread your expenses much better.

I just want to give us a little time to have some questions, but basically, again, understand the way things are before you set out to change them. That's something that I think you learn through hard knocks and, again, like I said on a personal basis, learning a new language is a very humbling experience for an adult. It makes you a much better listener because you can't think of anything to say, or you can't figure out how to translate it at the very least. I think that's been a helpful experience for me. It's something that you will learn a lot if you sit down and take the time to understand why things are the way they are. Again, don't be afraid to try nontraditional approaches, whether it's from the point of view of the foreign company or the local market, because there are better ways to do anything. You just have to understand the problem before providing a solution.

Mr. McKernan: It's kind of interesting, the emerging technology in a lot of the countries outside the U.S. I think it's kind of similar to the infrastructure in the U.S. with the roads and bridges, everything needs to be replaced, and companies in the U.S. are late with regard to changes in technology, but in emerging countries, everything's cellular technology, wireless, and it's almost like a clean slate to build upon. It's actually, from what I understand, much more efficient than the U.S.

Mr. Turner: They almost leapfrog in terms of technology because they aren't burdened with the way things were in the past. Everywhere you walk, you see people with cellular phones in Mexico because it's very efficient, and you also don't want to be out driving without being able to call someone in a hurry if he or she needs you. But that's true, you do leapfrog in terms of technology because you're not burdened with the past.

One of the interesting ways of distributing products is the privatized pension business in Latin America. When you cash out your savings product there and go for a lifetime annuity, for instance, one of the ways that that's distributed in Mexico is through an Internet site, and, basically, when somebody dies or becomes disabled, the social security program is the first one to find out about it. They put it on a Web site. All the companies supposedly have the ability to go in at 10:00 in the morning and see what new names are there, and send their guys out in cars or motorcycles to the poor widow or widower to try to sell them their product. That's an interesting anecdote about selling a product like that and using the Internet to distribute the names.

Mr. McKernan: You can use the cellular phone companies as a distribution network themselves since they're coming to pay their bills every month to keep that cellular.

Mr. Turner: That's right.

From the Floor: Question. You talked about the emerging worksite. Is that basically tied to the emerging middle classes?

Mr. Liu: No. The definition is pretty much more on the degree of customer awareness and affordability. In that sense, yes, it's tied to the middle class.

From the Floor: When you know a place like Indonesia where you have 20 million new telephones that you sold in homes in the last couple of years, does that make telemarketing effective? If you can bypass several steps in the infrastructure could you do that there as well? In Indonesia people don't get that many calls, so it's not as intrusive as it is in the U.S. Is that something that's working there or not working?

Mr. Liu: I guess in my work, I don't know. For example, in Taiwan and Hong Kong, everyone has a telephone or a cellular phone. If you were an optimistic marketer it could be a good marketing approach, but for countries like Indonesia, I don't know. If you use the telephone and you train the telemarketer well, you can approach the prospect and talk with the people on the phone about life insurance. I'm not aware of any company in Indonesia is doing that. Maybe that's something we should try if nobody else is doing it, but that doesn't mean that we shouldn't do it.

Mr. Nigh: From my experience in Latin America, telemarketing is very important and is fundamental to the approach taken by several of the bancassurance and joint ventures. In fact for a recent assignment in Chile, a customer base was singularly segmented for the specific purpose of telemarketing all products, not only insurance products, but also banking products. The particular customer segmentation was the professional individual between the ages of 25 and 45 who really just didn't want to stand in line to do anything. The success rate has been phenomenal in terms of the penetration of that customer base, and I think the approach in Mexico has been to rely heavily on telemarketing as well, so I would think that that would continue. Whether or not it becomes obtrusive as we feel it is in the U.S. is an evolving question.

From the Floor: One other thing, infrastructure of the mail is lacking or questionable. In Italy people don't mail their bills or use the post office to pay their bills. I was just wondering if anybody's using the utility company as a billing vehicle. The phone has to be billed every month so tie in and maybe have the phone company just add it to the bill of the insurance. Is that happening? That happens in Australia when you get no water bill or electric bill. Is that happening anywhere else?

Mr. Nigh: The one I'm aware of is on a preauthorized check basis and credit card, just getting authorization to do that which is permitted in Latin America in general. It is prohibited in the U.S., but it is permitted in Latin America, but the postal system isn't universally poor in Latin America. It's very poor in Mexico, for example, but quite good in Chile, and somewhere in between in Brazil.

From the Floor: I just wondered if any of the panelists can comment on whether they have illustration regulations or any sort of procedures that would prevent them from illustrating the way they would like, or if it's pretty much just whatever they want to show.

Mr. Liu: In most of the Asian countries, I guess that in Australia they have the toughest illustration regulations, but in countries like China or Indonesia, currently there are no illustration regulations. In markets like Singapore, Taiwan, and Korea, there are regulations, but they are not as comprehensive and sophisticated as those applied in the U.S. or there are no regulations, just the rulings or the opinions of the insurance commissioner. I remember I attended a meeting with the commissioner one day, and he was showing to some general managers some illustration materials he saw, and basically he remarked that if their problem is a failed illustration for a particular product, what we will do unofficially is not allow that company to sell that product any more. It's on a discretionary basis. It's also tied to the degree of suffocation of the marketplace.

Mr. McKernan: In a number of countries that I've become aware of there's an underground system distributing life insurance products, companies that are not necessarily chartered in the various countries, so this is an entirely unregulated segment of the insurance industry. This is part of the industry where there is no regulatory oversight. People are purchasing products from companies that are not licensed to do business in various jurisdictions, so the illustrations and the whole gamut probably remains unchecked, and I think that's in a lot of the Asian countries as well.

Mr. Lui: Once you allow your agent to give rebates or commissions, then in terms of the culture of the company or in terms of your reputation, it's just getting out of control. How do you draw the line between giving a bribe to an officer and giving some gift or accepting a gift or bribe from your vendors or your brokers to an executive of a company? I see many successful companies, that don't do that. Some companies that practice that may be successful in the short run, but presently I don't take that position.

Mr. Jim Koher: This question is to all the panel. Most of you have touched on the importance of language, and I'm wondering if you could elaborate a little bit more about that. For somebody who's going to get into the international field, there's a huge difference between knowing a few words, being conversational, being fluent, and, finally, being business fluent where you can actually talk about actuarial concepts or the like. What level do you need to be able to enter one of these markets and if you're not business fluent, how do you get around that?

Mr. Liu: As you may know, I'm not a native English speaker, but my experience has been that I speak some Spanish, Japanese, and Korean, so if I go to a country, I say basic things like "thank you very much," "good morning," "good evening," that's fine. But if you speak some basic language, sometimes you can get into trouble because once you start saying, "it's very nice to meet you" and "I used to work at Company A and B", then they start talking back you don't understand you can get yourself in trouble. I will share with you the AEGON view of this issue. When AEGON goes into a country, we never rely on expatriates. We always depend on local people who speak the local language; that's the AEGON practice. I know some companies that have different practices, but it's always very important and critical for the local management team to be able to speak English and communicate with headquarters. That's how you build trust by communicating on a frequent basis with headquarters. The local management team must be able to speak the local language. If the expatriate is there for only two or three years to work on a special project, that's different, but if you're talking about the local management team, they have to speak the language. That's the AEGON view, but that's the practice of one company.