

# RECORD, Volume 29, No. 3\*

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Orlando Annual Meeting

October 26–29, 2003

## Session 69PD

### Management of International Operations

**Track:** International, Management & Personal Development

**Moderator:** STEVEN SCHREIBER

**Panelists:** JOSE LUIS BERRIOS-MARTIN

WAYNE BIDELMAN

JOHN HANRAHAN

*Summary: More and more, North American life and health insurance companies have operations in markets around the world, creating new management issues. Our panel discusses the advantages and disadvantages of various approaches to managing international operations, including financial reporting requirements, risk management systems, cultural differences and human-resource environments.*

**MR. STEVEN SCHREIBER:** Over the past decade, more companies have expanded operations outside of their domestic markets into international markets. Companies have taken different approaches to this expansion. Some have taken a "greenfield" or start-up approach. Some have entered new markets via a joint venture with partners that can bring access to or expertise in a particular market. And some have entered via acquisition of an existing insurer. In fact, many companies have followed a combination of approaches in entering different markets. As companies have expanded internationally, this has created many new challenges for the management of these operations. Companies have been able to apply expertise from their domestic operations abroad. But everything that works in one's home country does not necessarily work in an international environment.

Our panel today is going to discuss experience in managing international operations, including the advantages and disadvantages of different approaches to managing these operations. They are going to discuss various management issues companies need to address when they operate in overseas markets. They will cover topics such as financial reporting, risk management, personnel management and dealing with cultural differences.

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**Note:** The chart(s) referred to in the text can be found at the end of the manuscript.

Wayne Bidelman from Transamerica Reinsurance is going to speak first. While Transamerica Reinsurance's parent, Aegon, has been an international player for many years, Transamerica Reinsurance's operations are relatively new. They have operations in both Asia and Latin America. Wayne's presentation is going to focus on business setup and organizational issues from the perspective of a fairly new player to international markets.

John Hanrahan of Prudential Insurance Company will cover strategic details. His presentation comes from the perspective of a company that has been in the international marketplace for over 20 years. Prudential is very active in Asia and has operations in Latin America and Europe. A significant part of Prudential International's revenue and income come from Japan, which was the first market the company entered in the late 1970s.

Jose Berrios-Martin of Milliman USA worked in Mexico City for several years for ING. He is going to speak from the perspective of someone with on-site experience and discuss the balancing act of dealing with local and regional staffs.

Now I would like to introduce today's presenters. Wayne Bidelman is president of the international division of Transamerica Reinsurance. Transamerica Reinsurance is a U.S.-based international life, annuity and health reinsurer, and a business division of Aegon, the international group of financial services companies. He is a Fellow of the Society of Actuaries (FSA) and a member of the American Academy of Actuaries (MAAA). Wayne has over 30 years of experience in the life, health, accident, annuity-insurance and reinsurance businesses. The majority of his career experience involves various leadership positions with market-leading reinsurers that were part of major multinational financial-service organizations. He has vast and successful experience in the areas of strategic development, strategy execution, people recruiting, building high-performance teams, and the creation of innovation-generating cultures.

John Hanrahan is senior vice president and chief financial officer (CFO) for Prudential's international insurance operations. He is an FSA and an MAAA. John has responsibility for the actuarial and financial areas of Prudential International's insurance operations covering nine operations in eight countries, as well as corporate support for these functions. John has been with Prudential for 26 years, the last seven in his current role. Prudential International's operations range in size from small start-ups to a company with over \$30 billion in assets.

Jose Berrios-Martin is an actuary with Milliman USA. He is an Associate of the Society of Actuaries and an MAAA. Jose has more than 17 years of technical and management experience in the life insurance and annuity industries in the United States and Mexico. He has held a variety of positions with several insurers. His responsibilities include product development, pricing and financial reporting. Prior to joining Milliman, Jose worked for ING Group's head office for the Americas region

in Atlanta, where he had actuarial oversight for Mexico and Chile. His experience includes appraisals and due diligence for insurance companies, mergers and acquisitions, management and integration of business units acquired in Latin America. Jose also worked for ING's operations in Mexico City for two years and was in charge of implementing ING Group's actuarial requirements regarding product development, pricing, embedded value, reserve adequacy, asset/liability modeling (ALM) and strategic marketing initiatives.

**MR. WAYNE BIDELMAN:** I will focus on issues involved with a new international expansion effort. Many of you have already been part of one. So, hopefully, there will be a little empathy with some of the things I'm going to talk about. I will explain about why Transamerica Reinsurance has gone international, my personal background and some issues I think are fairly comparable to any kind of an international operation—regardless of whether your company is a retail insurance company or a reinsurer. I will discuss the establishment of successful business strategies, business objectives and some of the key organizational issues a company will run into when it expands internationally. You certainly run into new and unique people issues.

Again, my perspective is as a reinsurer. Although a lot of the issues are the same for any other type of business, there are some differences that I will try to point out. Let me mention one as an example. As a reinsurer trying to do international business, we have the luxury that in most of the countries in which we do business, we do not necessarily have to establish a local legal corporate entity. In other words, in most of the countries we work through liaison or representative offices. This has an impact on our brick-and-mortar costs, the number of employees, etc. So, there are some differences from a retail insurance operation.

The reason Transamerica Reinsurance expanded internationally is the same as most other companies going into new markets. We wanted to diversify our risk and leverage our expertise. It's always important to expand your markets to ensure the long-term, sustainable growth of your business. Transamerica Reinsurance has been involved in international reinsurance since about 1993. But originally, it was more of a hobby than a focused strategy. In fact, it didn't have any dedicated support people in the home office for that effort. In 1999, there was a review of potential international markets, for the purpose of determining whether we should get serious about it or not. We concluded that the regions of Asia and Latin America had growth potential for us (specifically in Asia—Taiwan, Korea, and Japan; and in Latin America—Mexico, Argentina, and Brazil). As a result, I joined the organization in May of 2000 to help lead that particular expansion effort.

I had many years of reinsurance experience—strategy development, execution, building high performance teams—but very limited international experience. I had been involved in establishing international reinsurance transactions, but had no experience with respect to how to set up a local operation to do business with the local insurance companies in other countries. That made it a challenge, but it also

meant it was very important I got the right people around me to fill the gaps of knowledge and experience I didn't have. With so much to do, you certainly have to decide what you are going to do first and stay focused on your business objectives. Don't get spread too thin.

To generate significant enough activity and financial results in the short term, we started up in multiple markets at once. This was instead of picking one market, growing it to a certain size, and then expanding elsewhere. That made it more of a challenge. It was important to get the right people in the right place as quickly as I could. We chose a regional-management structure. By that I mean that we had local country offices and a regional management team (one in Asia, one in Latin America) to oversee the activities of all countries in a region. The first thing that I did was hire the leaders of those two regions, so that they could focus on building their own teams on whom they would have to rely for the future development of the region.

By the time we had most of our people in place, I was amazed to find out that we had more than 12 different nationalities on our team, worldwide. When everyone is new to each other and new to the company as well, part of the focus had to be on how to get this team to start working together and put a cohesive front to the marketplace. I had to keep an eye on the business objectives and focus on execution.

When establishing international business strategy and objectives, be careful about overgeneralizing. As those of you who work in this environment know, every country is very distinct. You cannot overgeneralize when you are trying to establish your most important business objectives. You have to consider the concept of emerging versus mature markets and stable versus unstable markets. In our case, we had chosen the region, and we had chosen the countries. It was a waste of time to generalize about whether they were more stable or less stable than our home market. However, it did help to prioritize activity by comparing one chosen country to another using such criteria. We needed to focus on which markets seemed to hold the better promise for us in those particular areas.

I think that there are three major keys to success for an international expansion effort. First, make sure that there is a clear commitment. I know that that sounds trite. It's one thing to say you want to be an international company. It's something else to take the time to establish the objectives, establish the benchmarks and get the full organization behind you so you can be successful.

Second, communication with your capital provider needs to be clear. You need to be on the same page in terms of what your short-term objectives are. I think that some failures come more from a lack of agreement on short-term objectives than from anything else. Third, when you have a new team of people from all over the world, it is essential to focus on integrating those people, their experiences and their culture.

I will talk about short-term objectives for a new international expansion. I consider three to four years to be short term. It's very important that you establish with your capital providers what you really want your pace of growth to be. In other words, it might be nice if you could go into a market and sit there for two years and study it and figure out the best way to grow. That's typically not practical. On the other hand, maybe you don't want to grow too fast and outstrip your desired short-term capital investment. Make sure there is agreement. Realize how much expense drain and capital commitment there will be, and how long you should continue to need the support of the organization. That should be established up front.

Also, you might want to clarify what I call "soft objectives." My company was a new reinsurer in these markets. There were a couple of very clear soft objectives that couldn't necessarily be measured economically. First, we had to make our presence known. We needed to build our image in that market, since we were a new player in a relatively mature market. Also, U.S. companies sometimes have the reputation for being in the market one day and pulling out the next. We needed to do whatever was necessary to make sure that we showed a commitment to the market that was recognized by our potential clients. So, getting our name known in the market and showing a long-term commitment represented "soft" short-term objectives for us.

Needless to say, if you're entering a new market, you need to figure out ways to differentiate yourself. Certainly, a recipe for quick failure would be to come into a market and compete head-on with the local successful incumbents. You need to figure out what you are going to do differently in that market to be successful. And while you're at it, it might make sense to figure out how long you're going to experiment with the new differentiating activities. If you're going to differentiate yourself in the market, that means that, in theory, no one else has done it before. As a result, you can't be 100 percent sure of the success. Even if it has the potential of being successful, you can't be sure of how quickly it will happen. And as a result, you may want to establish some timing guidelines. You might try something for two years and then modify your strategy if things aren't working out. It is better to be prepared to modify your strategy at a reasonable point in time rather than to ride the pony too long to failure.

Particularly from a short-term perspective, know what success looks like. In other words, make sure that everyone's in agreement that if you reach a certain point and accomplish a certain task, you are successful.

As a greenfield start-up operation, it is also important to balance the short-term objectives with the long-term ones. If you are not growing internationally through acquisition, there are significant up-front costs. There are certain short-term economic objectives that need to be established and accomplished. But in the reinsurance business, particularly, there's the potential to do very large transactions very quickly. You may reach your short-term objectives, but they

might be non-repeatable activities. Keep an eye on the long term, so that you don't get to the end of a short-term benchmark period without the infrastructure or a source of sustainable growth over the long term.

If you're part of a domestic operation that has chosen to expand internationally, over the long term, you should decide how significant you expect the results of your international expansion to be—in other words, what share of your organization. I would think that if over 20 years, all you earn from international markets is 0.5 percent of the bottom-line income of your organization, that's probably not sufficient. You might decide that 50 to 60 percent makes more sense after 10 years, or something like that. It helps to establish a long-term benchmark from a corporate perspective to set your strategies.

Synchronize the timing of increased resources. If you're starting as a greenfield operation, you will have a certain minimum infrastructure to get things going. And thus, you'll be in a cost overrun situation. Ideally, you build that initial infrastructure as quickly as you can, and then you "coast" for a while until your growth catches up. Then, ideally, you have a staffing model or a resource model that tells you when you can supplement with additional resources, as your business grows. That's what I mean by synchronized timing.

Manage the timing of new centralization versus decentralized activities. In your home office, it's typically important to decentralize, i.e., to segregate from your domestic business the key functional support areas for this international expansion. A potential for early failure is if you get caught up setting priorities for people that are working both domestically as well as internationally. Your new start-ups, oftentimes, will lose out from a priority standpoint for no intended negative reason. You must have control of the resources you need to get your new market expansion off the ground.

The second reason for segregating some of the key functions of international is that there may need to be some focused effort to define activities that are now different from your domestic activity. If it's operational support or something like that, chances are that there are going to be issues surrounding your international markets that are a lot different than your domestic market, and you may need some time to define what that means. Over the long term, you may decide that that it makes sense to once again centralize operations with your domestic operations unit, keeping in mind you might be able to leverage some intellectual capital and get some economies of scale. Just like short-term objectives, be clear on what success looks like. Make sure that everyone agrees on that.

Let me now talk about key organizational issues you run into. As an organization with a new international expansion plan, be clear on the expected level of corporate-management involvement. From our perspective, since we were addressing multiple markets at once, we needed to determine exactly where we were going to locate our offices and how many people we would have in those

different offices. Be very clear as to what the roles of your people are going to be at various levels of your international organization. In our case, we have local country offices. We have regional management. We have home-office, international management. And we have our overall reinsurance (corporate) management.

If you're not clear as to what's going to be centralized and what's going to be decentralized, where the decision-making level should be, it's going to be very difficult to determine how many people you need in different spots and the type of people that you'll need to hire to fill those spots. It's very important to make sure that you start with a framework. This gets into controls and procedures, as well as business development. In our case, we wanted our people external to the home office to be focused primarily on business development, keeping some of the operational support and oversight and controls more in the home office as we got going. That may shift over time, but it's important that you address and define that up front.

I talked a little bit about operational-platform needs. I won't spend much time on that. That could be a topic in and of itself. But certainly, you have to be able to administer your international business. It might be that you can use your domestic systems to do that. Chances are, you can't. You'll have to modify them, or scrap them and build something new. Or maybe you decide that, as you're small, you'll just use a good database-management system to keep track of your administration until you grow to a certain size. There are all sorts of options, but you need to address them—and this includes connectivity issues with respect to your other offices, depending on what role they have in that whole process.

Early on you should assess and define the expectations of your non-dedicated home-office resource support. As I alluded to earlier, ideally, when you're a greenfield start-up, you'd like to have control of all of the resources that you need to be successful in those new markets. But obviously, in a large organization, number one, you can't afford to do that, and number two, it'd be a waste of talent if you did. If you expect or need a lot of their time, make sure that you tell them about it, make sure that you define what that is, when you expect it, etc., so that no one is disappointed, and it doesn't end up fouling up your strategic plans.

Again, create a business culture to leverage the existing talent. In our case, because of the significant number of new people we had hired we suddenly had significantly added to our intellectual capital. We had new, very experienced people. Even though they were from multiple cultures, there was a lot of very good experience, a lot of very good knowledge. We needed to leverage what we were learning in one market and apply it to another. It was very important to stay focused on that.

Let me discuss some of the key and unique people issues that you run into with an international operation. As I said before, establish some type of a staffing model so that you can grow as your business grows. Recognize the type of people necessary,

even for home-office support. The type of people that you want as part of your team for an international business start-up tend to be different than some of the people that you might consider to be high achievers on your domestic side. The people interested in being part of a start-up business tend to be personal risk takers. They're going to be the kind of people that recognize that because you're in new-market expansion, you may be successful and you may not. As a result, there's some risk involved in that. I think that they also tend to be a little more adventuresome than a lot of people. In other words, the type of people that you end up having around you are, quite often, the ones that don't mind jumping on an airplane at a moment's notice, flying all night and landing in another country. It would bother most people that they might not feel as safe or comfortable as they are at home. I think that you need to recognize that you're looking for a different type of person to be part of your team.

Be honest about the decision to hire local people, expatriates, or move people from the home office into your foreign markets. I say, "be honest," because there are certain cost differentials between those particular approaches. It all has to tie into what your business objectives are. Some things should only be done by local people in the local markets, but you might have some options in other areas.

You should work hard initially on the integration of all of the people issues that I've talked about. In other words, you have a lot of different offices, a lot of different people and a lot of different experiences. Get them all focused on the same business principles. In our case, we also had brand new people. They were brand new to the company. And we were brand new to the markets. We had to fight through some issues as we integrated the expertise and experience of all of our people to reach common success. In addition, if new employees were with another company similar to ours, they already had certain expectations of how things were going to go. We needed to work hard to ensure that individuals' expectations were managed successfully and that they did not become too frustrated in the short term.

You need to address compensation. How do you set up a payroll? You can't just march down the hall and tell your human resources department to start adding new people that you hired in Chile or Japan to your payroll. There are different issues surrounding paying those people. You need to address those issues.

And certainly, you have to be cautious when setting your compensation guidelines. Compensation issues may not be the same for your international office as in your home-office base. As an example, if your home base is in a country with inflation of 1 or 2 percent, you have a salary pool of 2 percent. But you still have to determine raises for people that are in countries that have inflation at 25 percent. You need to pay attention to what's going on in the local market, before you determine how you're going to address salaries. And the same goes for your bonus programs. In some cases, the 13-month salary payment is the bonus. Maybe you don't need to put them on the same kind of structure that you have. You may have a target 20



percent bonus, but the marketplace demands 30 or 40 percent for that level person. You just have to be mindful that you may not be able to be consistent with all of your home-office policies. You need to pay attention to what's going on in the local market.

Communication issues—when we suddenly had employees that we needed to coordinate and collaborate with on the other side of the world, e-mail became very important. It represents about 99 percent of our communication with some of those people. You need to upgrade your e-mail etiquette. You need to make sure that your communication technology is good and that you have good connectivity. And particularly as a start-up, you need to structure your communication processes. It can't be a situation in which every person that you have in a region is calling one person or two different people in the home office on the same topic. You may need to become more formal in establishing your hierarchy of communication.

You also need to recognize what I call "remote-office" issues. A lot of our offices are very small in terms of number of people. The sad part is, human nature being what it is, if we aren't communicating with them, it could appear to them that we're not thinking or caring about them, which often isn't the case. Often the only time they hear from us it is for announcing new rules or requirements. We have to recognize that being involved in a remote office is not an easy task. You have to communicate sufficiently, but don't over-communicate. For example, some of your offices might be connected to the same e-mail that you have in your home office. So they constantly get messages about the ice cream social in the cafeteria at the end of the day. It's a little difficult for them to fly 20,000 miles to get to it, and they don't like seeing that.

Just to summarize, let me focus on a U.S.-based company going international. We've all heard that U.S. companies can't have international success, because they don't have the long-term commitment. I personally think that's bunk. No one has a long-term commitment in this economic environment anymore, but I would submit that any company leaves a market more as a result of unclear or unrealistic short-term objectives versus anything else. I do think that it is absolutely true that for a U.S. company to be successful internationally that it needs to drop its Western attitudes and expectations. Every country has a different business culture, and you shouldn't blindly plan on driving your own culture into new countries. Listen to your local people and work with them. Sometimes, there has to be a balance. But in the end, you really need to rely on your local people, because people from different cultures come to business decisions in different ways.

As a U.S. company, you're going to have to get used to the fact that information and data is not as specific or as abundant as what you're accustomed to in the United States. As a result, your risk tolerance needs to be examined. Chances are, you can't be as comfortable as you might be with some of your decisions in your domestic market. You need to recognize that, accept it, and figure out where your risk tolerance is, i.e., at what point do you become too uncomfortable. In the end, if

you're going to expand internationally, be realistic. There are opportunities to have fun. And learn how to deal with jet lag.

**MR. JOHN HANRAHAN:** I'd like to give you an idea of the scale of the operations that we're talking about. We have very tiny operations in some countries. And we have very large operations—\$30 billion in assets, over about 5,000 agents. But they're all full-function, stand-alone insurance operations. Each is making its own products. They're handling their own investments. They are out there selling. Everything is done in the country locally. You have to trust your local people. You really have to believe in them. And I find that they are very good at doing what they do.

There are two different strategies. We have built greenfield operations. We started from scratch, hiring and recruiting people, and then bringing those operations up to speed. That's what we call our life planner model. It is a model targeting upper-income customers. A few years ago, we acquired a very large company in Japan that was operating in a traditional Japanese insurance model. Both of these models are very successful for us. Both of them are 20+ percent return on equity (ROE) operations. There's not just one single strategy that will work. It all comes down to execution. I'm going to repeat that over and over throughout the presentation. There are all different models out there that people are following. If you are executing, you can be successful with many of them.

Chart 1 shows all of the different drivers we track in our business model. It is a financial view of how you evaluate or measure performance of an insurance operation. Yesterday, I attended a session with equity analysts, and they all talked about ROE. It is widely accepted as the measure of performance, but you don't have people out there pushing for ROE. They have to focus on the drivers. ROE is an outcome of people performing, executing in their businesses.

I mentioned before that our operations are stand-alone, full-function operations. These are insurance companies that operate in their local markets. We do have a small group—of about 40 people—in our corporate office that provides support and oversight of the different operations. In getting them started, there was a lot more support needed in hiring, helping them to identify the right people locally. On the actuarial side, there are a lot of differences in the development of actuarial science in different countries. In places like Japan and Korea, there are well-developed actuarial societies. In some of the other countries, you can become an actuary right out of college, with no exams. We have to provide a little more support in those areas, in terms of product development, profit margin, testing, those kinds of things.

We're a lot more concerned, in our corporate office, with managing the capital that we have in those countries. They're managed on a local basis. They have local solvency-margin requirements, different than the U.S. GAAP-capital and risk-based capital (RBC) measures. Dividends are based on local statutory measures. You can't

dividend deferred-acquisition cost (DAC). Those are the things that we have to pay attention to, but ultimately our company is measured in the United States by our ROE on a GAAP basis.

Expense control—we can't layer on too many expenses to their operations. We work with our corporate areas to make sure that there aren't too many people helping. We have some small operations. And having a lot of people visit from a corporate office on a regular basis takes up a lot of their time, given that the same person who's doing all of the financial reporting locally has to do the U.S. GAAP reporting, etc. We try to help in that respect.

Chart 2 is a subset of the total business model. This is the part focused on in the countries. It didn't get that much shorter. The model was focused on the key drivers—recruiting/retention, policy persistency, productivity and investment income. That's what people can focus on every single day. We have 15,000 people in our international insurance operations. They're not thinking about how to make our earnings or our ROE higher. They are thinking about how to recruit the right people. How do they train them the right way and keep them? The agents are wondering how they can be more productive. How can they build their customer bases? They're focusing on the key drivers. ROE and earnings are just outcomes.

You have to focus on those drivers, on the individual activities that people can do. Investment income isn't that big of an issue in the smaller operations. But in some of our larger operations, it becomes very significant. Expense control is important at every level. You have to have that culture of doing the right things and funding them. You can't tell people to get things done and not give them the resources to do it. And you can't be successful if you're doing things that just aren't adding value.

I want to explain some of the differences in the key drivers. As you're starting out with very small operations, what do you have to focus on? What do you have to get right? The first items are retention and recruiting. When you're starting up a new company, the people that you hire in your home office, and, most importantly, in your distribution system, have to be the right people. And you have to train them the right way. That's the critical measure in being able to build an organization and be successful.

The short term is three to four years for startups. In the United States, the focus is on quarter-to-quarter earnings. In an international start-up, that doesn't tell you much. It takes a long time for earnings to emerge in a life insurance operation that you're building from the ground up. We would assume that even if everything goes perfectly, it's going to take four or five years before you see any profits. You have to build it right, and you can't tell by the GAAP-income statement whether you're doing it right. You can tell if you're getting those drivers right. If you're getting good retention, you're hiring the right people. And if they're productive, you'll know

what track you're heading on. You can tell where you're going, if you get the drivers right.

Gibraltar is a company in Japan that we acquired in 2001 that had run into problems with low interest rates and a poor asset portfolio. They ended up being restructured, and Prudential acquired them. This is an operation that had done a lot of things really well, but their investment environment was very challenging and they had some problems. In that size operation, investment income is critical. If you think about it, 10 basis points on \$30 billion is a lot of money.

While we're managing that business, we have to make sure that we're focusing the activities of the people on doing the right things. It's always important to have good policy persistency. That's also an outcome. It tells you that you sold the business the right way, and the customers are satisfied. If you're doing that right, you can think in terms of a long-term operation, something that can be successful for you for a long time.

When it all comes together, you get what we call a beneficial cycle. When everything clicks, you're hiring the right people, you're training them the right way, they're selling the right way, their customers are satisfied, they've been getting good referrals, they're becoming more productive, and they're well paid. It's a lot easier to attract people into an office when you have 50 successful life planners that have done exactly what you're telling these new people to do. Once it's running, once it's working really well, it just keeps growing, and you start to get high growth. However, if you fall off of that track, you can spin out of control. You have to make sure that you're focused on those drivers all of the time.

Execution is the key, and hiring the right people is a part of that. I think that the most common mistakes made in insurance operations are in the hiring decisions, particularly at the sales manager level. If they're trying to recruit individual agents, they're faced with finding and hiring the right people. Sometimes, they find the wrong person, and they don't hire him. They recognize it and don't hire that person. But sometimes, they find the wrong person and they go ahead and hire him anyway. That's the key mistake. So many times, sales managers have a number in mind. They want to get to a certain number of agents. That's a target that they can hit easily. They don't do it intentionally, but it'll be a long time before you figure out that they didn't hire the right people. If you think of the money and time that's invested and the damage that you do by hiring that wrong person, you're wasting their time, the company's money, your own time, and you're that much further from being successful. I think that, that applies to all of us that do hiring. If you hired the wrong person, you're not doing them any justice. And if you lose that person, clearly you did something wrong. You either hired the wrong person or you didn't train them correctly.

When you're talking about hiring people, you have to find people that believe in what you are doing. They have to believe that they're selling something worthwhile.

They're not pushing a product. They have to understand that what they're doing is important, and they have to believe in that. If they don't, they're not the right people, and you shouldn't hire them. That's really one of the things that we see as a difference in why we've been successful in different operations; the people feel really good about what they're doing. They understand how they're adding value, and they're committed to this as their career. That's part of execution.

Sometimes people will talk in terms of cultural differences. One method might work in one country, but it won't necessarily work somewhere else. I want to give you one example why I think this is not nearly as critical as some believe. We started an operation in Korea in 1989. We started following a very similar model to what we were using in Japan. And after several years, it wasn't working. We had problems. Meanwhile, our Japanese operation was working, and it was starting to show the kind of performance that it could deliver. For this Korean operation, some of the drivers looked okay, but it really wasn't right. We had people that weren't selling the right way.

The founder of our international insurance operations stepped in. He's the person who headed up our Japanese insurance operation from the beginning. He developed this whole model that we follow. He was put in charge of the Korean operation, and he brought in a new leader, the current head of our international insurance operations. The new leader had no insurance experience, but the founder of our international operation told him that if he executed the model, he would be successful. The new Korean leader studied the model and believed that his group could do that. So back in 1993-1994, we had an operation that was really in desperate shape. All of a sudden, with the same culture, same products, all the same things, we saw an operation start to emerge. We saw productivity.

The current operation was doing a little bit better, but it wasn't necessarily good business. Persistency was pretty low in the industry as a whole. We were running at an industry average, or maybe a little bit better. Since then, we've built up productivity, averaging nine policies a month. The life-planner group didn't grow between 1993 and 1994. It was only beginning to emerge by 1997. That year our Korean operation was barely profitable. It had just broken its first U.S. GAAP profit, maybe a few million dollars. Last year, they made over \$100 million.

It takes a long time, but if you do it right, you'll get the performance. You'll get the productivity, the average-size policy. It's important to us. We're addressing a certain market. They need a certain level of coverage identified through needs analysis. So, by executing on our model, driver by driver, we saw the turnaround. In Japan, it was successful. In Korea, people might have said that it was not successful at first because of cultural differences. But the difference was in execution. An operation went from being in a lot of trouble to being highly successful, running on all cylinders, because of execution.

Let me quickly summarize. The key here is that you have to understand what your strategy is. What exactly are you trying to do, and how do you plan to execute it? You monitor the performance against key drivers. The biggest requirement that the head of our international operations had of me was a status-of-operations report, one page that evaluated each of those key drivers for each of our operations—persistence, retention, productivity and recruiting. Performance on those drivers was all he needed to know. The GAAP income, all of that, is going to be positive as a result of focusing on those drivers. It's an outcome. Execute on those drivers.

I was reading a book recently called *Good To Great: Why Some Companies Make the Leap ... and Others Don't*, by Jim Collins. The author says that you have to have the right people in place. If you don't have the right people in your country's operations, and you have a lot of corporate oversight, it just means that you're going to have bad operations and higher corporate expenses. You're not going to be successful unless you have the right people making the decisions and running the businesses. That's how it works.

**MR. JOSE LUIS BERRIOS-MARTIN:** I will discuss the human side of the business and point out some issues, challenges, conflicts and conflict resolution. These topics may provide some insight for companies that plan to consider greenfields, joint ventures or acquisitions. The context of the discussion will also touch upon the main challenges of achieving acceptable levels of profitability and growth and overcoming competitive pressures in the market.

Obviously, there are several local companies that are very well established and have a very strong brand name. When foreign companies establish a local presence, through a joint venture or an acquisition, they must determine what makes sense. First of all, it is critical to review the product mix and distribution structure before a strategy is designed and implemented, and one that is consistent with the parent company's overall strategy.

With regards to the product mix, a lot of insurance products in Latin America and Mexico are very similar (in structure and price), because it's very easy to copy each other's products. The copying of products is driven mainly by the need to satisfy a few powerful agents. The place of sale is very traditional, sometimes door-to-door, sometimes through a group, sometimes through networking and relationships. The promotion approach is standard. There's not a lot of hype about differentiation of the companies.

Doing business in Latin America creates a significant potential to gain competitive advantages through market segmentation. In countries such as Mexico that offer opportunities for significant scale, review of the product mix of the life insurance market indicates that there is a wide range of products, from very cheap term-insurance product for the low-income market to very complicated universal-life-type products designed for the middle- to high-income markets. A lot of these life insurance products were developed at the request of a few agents, but the reality is

that only a few policies are sold per year. This is due to the nature and structure of insurance companies which sell both life and non-life products under a single umbrella and the distribution system of agents.

The obvious questions to address are: 1) Where should the growth occur, and how much? 2) Should there be loss-leader products? 3) Should there be high-income or high-margin products? 4) How should the agents be segmented to sell certain types of products? 5) Who are our loyal customers?

To many local consumers, there is significant potential for improving customer service. There is significant potential for developing well established needs-based analysis and bettering the images of the agents and insurance companies. The focus should be to try to switch from a concept of being all things to all people to meeting the needs and wants of consumers.

The second challenge to consider is finding the right people for the right jobs. Local staff is typically quite good, professional and proficient. However, the actuarial profession in many Latin American countries only considers technical income (premium, minus commissions, minus increase in reserves) as part of its training and responsibilities. Perhaps due to territorial issues, actuaries never attempted to determine the other elements needed to gain a real picture of profitability (distributable to shareholders) and determine the value-added from new sales.

In addition to technical abilities, the subject of willingness or attitudes is critical to identify and address. The local staff may be very competent, but if they are not willing to do the work or they are not willing to change their focus, it's going to be a very difficult effort. There is significant potential for resistance to change that should be addressed immediately when defining roles and responsibilities.

Creating a structure and a process that involves the local staff, expatriates, and home-office support staff is critical for the successful completion of high priority projects. From the beginning, very clear and consistent job descriptions (roles and responsibilities) need to be defined so that people can think outside of the box and start working on the issues that are important.

The third challenge to consider is the delivery of promises and on time. In some cultures, the notion of time is not a priority. For example, in many Latin American countries, asking for a request once is considered a friendly conversation and not a commitment. Clear instructions, patience, follow-up and persistence are key attributes in this type of environment. In some cases, there may be the need for structuring ongoing corporate cultural change to define the dos and don'ts as part of integration of norms and best practices of the company.

Some of the means to overcome these challenges is to structure a disciplined process to get results in the short term, whether it is producing bottom-line results with proper accountability, quarter by quarter, or launching a new product or

implementing a new administrative system, or a big shift in focus from no planning to full-blown planning. Short-term, measurable goals are critical to keep people focused and on the same track.

The last challenge on my list that you may consider is sustainable good results versus unanticipated events. This comes to fruition with the C-4 risks that RBC addresses. In the case of Latin America, keep in mind that a whole country could fall apart, like Argentina. Therefore, it is very important to be able to quantify this type of risk in that regard and consider all legal, political and economic threats. Then some type of contingency plan can be created around it.

All challenges are made up of some core issues, which I will point out next. The first issue to consider is market share versus profitability targets. Some key decisions will be required based on tradeoffs (pros and cons) of adopting a market-share strategy versus a profitable growth strategy, and all their related compensation and administrative implications. For the actuary to have an effective role, it requires a switch in paradigm, from a strict technical role to a business-professional role. Not only should the actuary have technical competence, but also must learn and understand the "languages" of other areas of the company (such as marketing, investments, accounting, etc.) and be able to provide objective advice and opinions on optimal business strategies.

The second issue to consider is the complexity of the market and the levels of administrative expenses. Many products and their complex features can create a burden on administration and very high maintenance expenses.

The third issue to consider is the quality and focus of the distribution system. In many Latin American countries, the agents are independent producers, so there are limits on the levels of control and influence with regards to selection, training and reaching acceptable productivity levels.

The fourth issue to consider is the people factor. Acquiring the proper language and cultural training is very important, both for expatriates as well as local staff (that is, learning the foreign partner's language and culture). It is critical to understand people's differences more than anything else. Creating positive relationships, internal and external, is necessary. It's very critical to have clear, consistent and honest communication in order to build upon trust.

Undoubtedly, conflict will happen because of misunderstandings and people's personalities. Below are some of the sources that generate conflict: 1) Due to pride in ownership. People in the business units are very proud of their own success and of the business tools they own, despite how old or inefficient they may be. Respecting these sources of pride is important in order to be able to introduce a shift in paradigms and letting go of the old ways. 2) Due to control and decision-making power. Many executive positions in Latin America are associated with authoritative power (rights), and the sharing of decision-making and/or coveted



knowledge may be viewed to them as a threat. 3) Due to misperceptions or lack of training in culture and "team" dynamics. A feeling of invasion of people's territories is a common situation where people may feel threatened or criticized. Having clear and consistent job descriptions should reduce this source of conflict as well as having the appropriate people in place.

Given that each situation is different, each country is different, each company is different, and all situations must be viewed in their own context. The primary objective of each conflict resolution must be on building upon trust. However, trust must be a two-way street. For people to trust one another, the proper structure must be in place. Restructuring the organization may be painful, but it is necessary so that the interests of all stakeholders are properly aligned.

**MR. HUBERT B. MUELLER:** I have a question for John Hanrahan. As a global player in the various regions that you're currently active in, what would you say are the top two or three growth markets in each of those regions, and why?

**MR. HANRAHAN:** In terms of growth markets, we're currently very large in Asia. One place that we're not attracting a lot of attention is China. Obviously, it's a huge market and it's growing. Try to remember that people looking at the Japanese insurance market would have seen a very large, mature market, the most-insured population, maybe, in the world, in terms of policies and coverage per person, and so on. And yet, for us, it has been a tremendous growth opportunity. We look at things both from the perspective of how much coverage there is and how well the market is served. And our view in the Japanese market is that there were a lot of policies being sold, but not necessarily on a needs basis. So there can be growth, despite what looks like a market that is saturated.

We went into Brazil and Argentina just a few years ago. Argentina had run into some serious financial problems, and they're still putting it back together, but there's a clear view that in Latin America there is a lot of room for growth. Places like Mexico are emerging. Some of the economics in places like Brazil had super-inflation for so many years, so long-term insurance products were not all that attractive. The super-inflation has been under control for a number of years. All of a sudden, you're starting to see some significant growth.

I don't think that growth opportunities are limited to specific countries or situations for which there is already a large economy, or not. It's really situational. You need enough stability in the economics and the government, and so on, to make it worthwhile.

You have to have enough income to protect. You have to have a significant target market, depending on your model. There are different models. People are looking for different things. What might not be a growth opportunity for us could be a growth opportunity for somebody else. I can't give you a single clear answer on what's *the* right market for different people.

**MR. SCHREIBER:** You don't find a lot of U.S. companies very excited about Western Europe. Maybe the view is that it's such a mature market that it is not a growth market. It will be interesting to see if U.S. companies started expanding in Central Europe, especially as some of those countries started coming into the European Union.

**MR. HANRAHAN:** We opened an operation in Poland back in 1998, and we have been in Italy for a number of years. We see those markets as attractive. There is opportunity. Our Italian operation had taken a long time to start meeting the drivers that we've been looking for, but it's starting to do it now. There's a lot of bancassurance in Europe, a different model than what we have. We think that our model can work there, as well. So again, what we might see as an opportunity, others might rule out. But certainly, the economic strength is in Europe.

**MR. SCHREIBER:** One thing that I didn't hear in any of the presentations was discussion about the relationship with the regulators. Each market is very different. You have different regulators. Some have more advanced regulations from the insurance side. Others are a work in progress. I'd be interested in any thoughts or comments on the importance of establishing a relationship with the regulator and working to maintain the relationship.

**MR. BIDELMAN:** It was inclusive when I said that you can't generalize about regions, because each country has its own regulatory situation that you have to address. And if you need to come into the market differentiating yourself, you had better have a good relationship with the regulators. As a retail company, if you want to come in with variable products that aren't allowed in a market, some regulatory change is required. In our case, as a reinsurer, most of the regulatory environments are very immature. And as a result, a lot of things are very vague. You'd best make sure that you know what the regulatory view is going to be on a particular type of transaction. I would say that if that's the case, the foreign company personnel should not be talking with the regulators. It should be your local people. In our case, it might be the local client that would go to the regulators with this.

**MR. BERRIOS-MARTIN:** In Mexico, the local companies do have an upper hand in that regard, because there are close relationships between people in the regulators' offices that know each other. It's a very closed circle. You want to have your locals in that circle.

**MR. HANRAHAN:** I certainly agree. Dealing with the regulators is done through your local people. Persistency is really critical. The regulators are concerned with customer satisfaction. If you have a lot of complaints, you're going to have real problems. We focus on customer satisfaction. How you do business is going to go a long way toward having a good relationship with the regulators.

**MR. SCHREIBER:** All three of you talked about the importance of hiring good local people. I was wondering if you could talk about the challenge of doing that, especially in markets that were recently tariff markets. There wasn't a lot of need to have real skills in those markets for pricing products. While I think that you're all in agreement, it's important to find good local people. I've seen a lot of companies struggle in trying to achieve that.

**MR. BIDELMAN:** That's really a very good question. There are very talented and bright local people that you should take advantage of. As I mentioned before, if you're going to differentiate yourself in the market, sometimes it's difficult to find experienced people, from a local standpoint, who might have the expertise to help you with the business development of differentiating strategies. This is why I think that you have to take a hard look at a mix of expatriates and locals, or maybe home office people. It depends on your model, what it is you're trying to accomplish. The talent is certainly there. Experience from a local standpoint is certainly there. If they are educated in other markets—maybe they worked in the United States or Europe—the product knowledge could be learned. They can be very valuable to you.

**MR. HANRAHAN:** I think that on the home-office side the technical skills, and so on, can be learned. You can bring over people from the United States to teach and fill in gaps. When it comes to distribution, it's local. The key for us is how to find the right people. We end up going through 100 people to hire three. So 100 people start out coming in, going to our career fairs, and so on. And that whittles down to about three people that we ultimately hire. That's what I said before about not hiring the wrong people. You need a series of interviews, a review. Our new markets were taught the same thing, but they're not as experienced. They weren't as good at identifying the right people, the people that fit our model. You get better as you go along. One of the things that we required of our agency manager was that every time somebody left, they had to look at that situation, then come in and talk to the executive office about why it happened. What did they do wrong? What can we do differently so that we get it right?

**MR. BERRIOS-MARTIN:** I don't think that I had problems hiring the right people. If they didn't have the skill set, they could learn fairly quickly. More importantly, I was looking for people that had the right attitude.

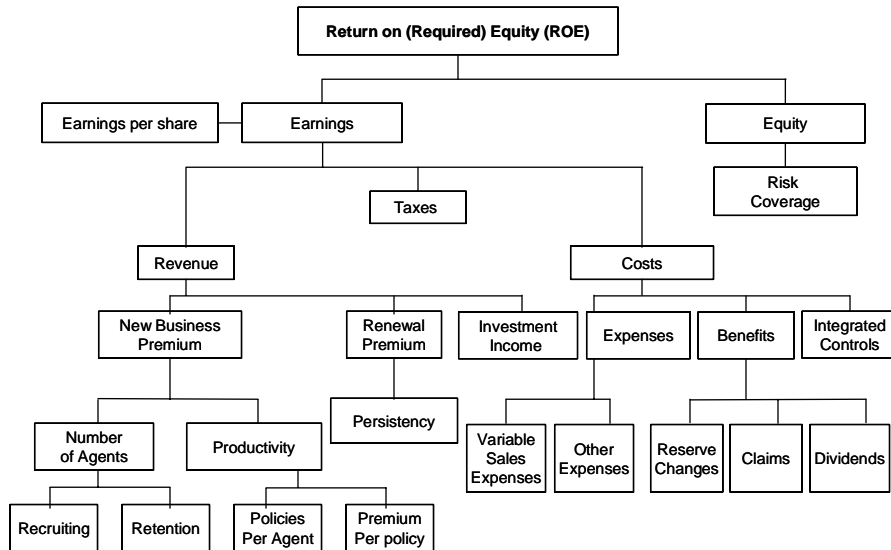
**MR. SCHREIBER:** John, you said Prudential hires three out of 100, and your numbers show that you have very productive agents who are selling good business. It would seem that you're potentially open to poaching, people coming after the force that you've invested in. I am curious as to how you've worked to retain those agents.

**MR. HANRAHAN:** It comes back to the belief in the model itself. When people come in and understand our philosophy and what we're trying to do, with the training that they get, there's a closeness to the person who recruited them. While

competition has been poaching, we keep a lot more of them than we lose. But if management is doing it the right way, there's not really a reason to leave. Employees are going to be well compensated. They're going to build a good client base. Everything is going to fit together.

Chart 1

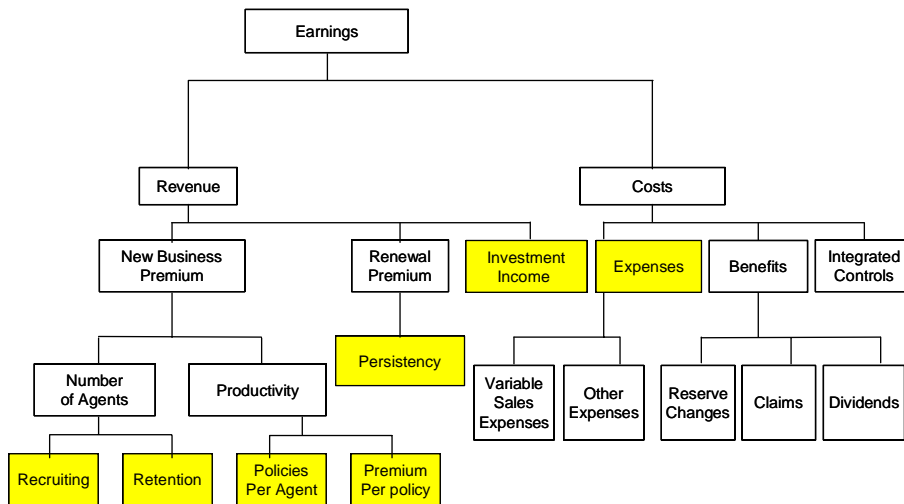
**Prudential International Insurance Business Model**



Slide 1

Chart 2

**Prudential International Insurance Business Model –  
In the Country**



Slide 2