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Mergers and Acquisitions in Emerging Markets

Track: International

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Summary: This seminar introduces actuaries to the "state of the art" in mergers and acquisitions (M&A) in Asia, Latin America and other fast-growing regions. Participants get a comprehensive view of parts of the M&A process. Topics covered are evaluating market attractiveness, selecting and analyzing the target company, bidding and negotiating deal structure, performing due diligence and closing the deal, integrating operations, deciding what to spin off and what to keep, acquiring joint venture partners and other issues (for example, funding, such as IPO).

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Note: The chart(s) referred to in the text can be downloaded at: http://handouts.soa.org/conted/cearchive/NewOrleans-May05/057_bk.pdf.

MR. WILLIAM R. HORBATT: Our topic today is going to be "Mergers and Acquisitions in Emerging Markets." I'd like to thank the International Section, which organized this meeting as a seminar last fall, but because of a slight decline in turnout from our expectations, we postponed it and embedded it in this spring meeting. I'd like to thank the speakers, most of whom were committed to the original seminar. I think you're going to find them an impressive group of people.

When we were organizing the seminar, we wanted to give the attendees a feel for the life cycle of a deal from birth to death. What happens when you're a buyer is you're normally first looking at your market and determining what's an attractive market to go into. There are a lot of markets you can choose. Which one are you going to pick? Once you've picked the market, the next question is, How do you want to do the deal? Do you want to enter the market by building a green field from scratch? Do you want to buy an existing operation? Do you want to rent some operation?

Once you've made those decisions, you have to go shopping. It's not like going to the grocery store. It's a little more complicated. Once you've picked a company, you have to be involved in the bidding and negotiation for the deal. At the last stage, you're committed in a letter or whatever agreement to buy this company, the representation is made, and you have that opportunity to do due diligence and learn more about the company. If the seller wasn't forthright, if there was something hidden, you have a chance to get out or to change the price.

Our first speaker is Camilo Salazar. He's with Milliman. He has experience throughout Latin America, including Paraguay, one of his major markets. Following him will be Elisa Wever. She's with Scotiabank, and her market is entirely the Caribbean and Latin America. She just mentioned her most recent foray is in El Salvador, a nice little country. Following her will be David Chalfin. David is in New York Life's M&A Department. David has some experience in places like Brazil, Korea and Thailand. After that will be Sam Coleman. Sam's with Citicorp. His market for this purpose is primarily Latin America, including countries such as Chile, Argentina, Brazil, Mexico, Colombia and a perennial favorite, Peru. Then we're going to wrap up the session with Rich de Haan from Ernst and Gary Timin. Rich has just come back from Asia-Pacific, so he's had extensive experience in Japan, Korea, Malaysia, Indonesia, Australia and a few more countries. Gary is with Steele Hector & Davis. He's one of our three nonactuaries here. His experience is in Latin America, primarily Venezuela, Brazil and Argentina.

MR. CAMILO J. SALAZAR: Good morning. As Bill mentioned, while at Milliman I've been involved in quite a few M&A transactions in Latin America in almost every country that has had any activity in the past seven years, as well as in the Caribbean, Spain and Portugal. I've been involved secondarily in some transactions in the Far East with other parts of Milliman that specialize in that region. Before that I was with Principal Financial Group, and in that capacity I was almost always involved in M&A transactions when Principal started going into Latin America in

Chile, Argentina and Mexico, so I've been fortunate enough to see what these situations look like from different perspectives.

I'm not going to spend too much time on market attractiveness and evaluation. In the 1990s when a multinational study was going into markets other than domestic markets, almost every company started doing what I typically called black-and-white research. They got information. They got statistics about demographics, age distributions, insurance penetration measures, percentages in domestic product and so on. Based on that they started targeting countries and said, "We're going to go to Brazil because gross domestic product (GDP) is only 2.5 percent as opposed to the United States, the United Kingdom or Japan, where it is 7 percent, 8 percent and 9 percent, so there's a huge vacuum that we can fill in there."

Many companies did exactly the same analysis, came to exactly the same conclusions and went to exactly the same countries, and all those countries still remain in the 2.5 percent range, so nothing has changed from that perspective. Some started greenfield operations, and some acquired what they were allowed to acquire because the laws in many of these countries did not allow you to gain 100 percent ownership. Some of you might recall that Mexico for many years had in its laws a limitation of 49 percent, and, in fact, it exercised only up to 30 percent for many years. Only the North American Free Trade Agreement (NAFTA) year by year opened it up at 5 percent a year. It was a struggling process, and eventually it opened up. All the countries like Argentina opened up their gates only to crash and burn 10 years later, so it is not a methodical, neat and clean process of evaluating countries and going after them.

Today we're starting to see that a lot of those early entries, which were either greenfields or acquisitions, are now being revisited, recleaned and repositioned. Some companies have divested of their original acquisitions in Latin America—for instance, Allianz and Royal & SunAlliance are a few.

I wanted to focus my discussion this morning on trying to give you a sense of the different dynamics that take place in this process from the viewpoint of a local player and a foreign player. Now the markets are basically open everywhere, at least in Latin America and Europe. You can buy 100 percent, or you can start a fresh company, if you choose to do so. There are no limitations other than the legal process to do so.

When you focus on M&A in general as a concept, if you're a local player there are different dynamics at play if you want to acquire somebody in your local market as opposed to if you are a multinational coming into the country for the first time, so I'm going to delve into that a little bit because it has different implications for a local player or a foreign investor. For instance, a local player might want to enhance local presence, eliminate a competitor, enter a new line of business or acquire critical mass. Each one of those has different repercussions on how much

they're willing to pay because basically they're going to have to merge operations and extract some synergies and some economies of scale.

There are different dynamics if you're a local player trying to acquire an existing company than if you're a foreign player coming into the market for the first time. There might be a strategic value for coming into the market that might go beyond what the appraisal tells you. There might be a strategic reason why it's important for you to go to Brazil, for instance, even though today the appraisal report that you get from a firm such as ours or somebody else tells you there are different considerations in terms of regional or international strategy. You also make the decision of whether you want to start a greenfield operation fresh or acquire something with some market share and some presence in the market.

During the 1990s, as I mentioned, there was a rush of activity into Latin America. Salazar Slide 3, page 2 is a sample of some of the transactions that took place at that time. It is by no means complete, but it's a quick and dirty list of things that happened in the region. Monterrey Aetna sold to New York Life. Abaseguros, a little property and casualty (P&C) company in Mexico, sold to GMAC. Aetna Life sold to ING in Chile and Argentina, as well as Brazil. Santander Vida sold to MetLife. America ING bought half of that company. That was an investment that Aetna had at that time in Brazil. CNA-Vida sold out after being there for a few years. The strategic direction did not pursue that any further, so it divested it, and Consorcio, a local company, bought it. Here's an example of a local company acquiring another local company. In Colombia, Suramericana sold a minority interest to Munich Re, and it's interesting because Munich Re is a reinsurer, and yet it bought a direct stake in Suramericana, which is the largest insurance group in Colombia.

MR. HORBATT: You have to remember the Aergo Group in Europe, which is a direct writer, too.

MR. SALAZAR: But in Latin America, historically they have had basically a quasimonopoly on reinsurance, and so companies in Colombia that reinsure with it were uneasy as to why they are buying a stake in their main competitor, so there were issues like that. SCA was bought by ING in Mexico. That's the largest insurance company in Mexico. BHIF America sold to Ohio National. This is an example of a company getting out after it bought in the late 1980s or early 1990s. It got out of Brazil. Aseguradora Hidalgo was probably the largest transaction that has taken place in the Americas in all this time. This was the life insurance owned by the government of Mexico, and it was sold to MetLife in Mexico.

Sam and I had the privilege of working together on this transaction on behalf of the Mexican government. Construccion is a company half-owned by a local group and Royal & SunAlliance, and last year Royal got out of Chile, so it sold that to another local group, Bice. It was done in two steps. Royal sold its half to the local partner, and once the local partner had 100 percent, it turned around within two months and sold it to another local partner, expecting to make some money and didn't,

unfortunately. Allianz P&C also got of Chile recently. It sold to Liberty. ING-P&C sold in Chile. This is a quick summary, but after all this, there's been a lull. During 2004 there was little activity in relative terms. It's starting to pick up a little bit, but we see more of a realignment of reassessing what companies bought, what they didn't buy, where they should go and where they shouldn't go in the Americas.

With regard to what we as consulting actuaries typically do in M&A-related transactions, we can assist the seller or the buyer. That's as plainly as you can differentiate our roles. I'm going to go into a little bit of detail of each—the sale process and the due diligence process, which is basically on behalf of a buyer.

Each one has different needs, different objectives, different economics and different responsibilities for us as independent actuaries. You've heard the cliché that if you put two actuaries in a room with exactly the same data, they come out with two different conclusions, and that's the case in these kinds of exercises. Each one respects its independence and respects the guidelines that the SOA puts forward in terms of Actuarial Standard of Practice (ASOP) 19 as we're gong to see in a minute.

In regard to sale processes, I want to talk a little bit about the role of the actuary on behalf of a seller, the timing and the logistics that typically take place, some technical considerations and some culture considerations. I want to spend a little bit of time on the cultural aspects of it. You're dealing typically with two different cultures, geographically speaking. With a multinational buyer, it could be a U.S. buyer or a European buyer that comes to do the smell test and sniff around a company in a different country in a different language, where most of the time its actuarial profession has a different feel, different expectations and different roles. That can throw sand in the gears. When we are working for a seller as independent actuarial consultants, the role is to develop a propositional value and to create a reference point. The company many times doesn't know how much what it wants to sell is worth, and so you have to start by assessing how much it could get for this thing. It's the same thing when you have a car you want to sell. You need to figure out how much it's worth, so you go to the National Association of Buyers' Agents (NABA) book. In this case you go to an independent consulting actuary such as our company or somebody else.

Our role doesn't necessarily stop there. We develop an appraisal value, and I'm going to go into a little bit of detail of what that entails. You work with an investment banker and the legal firm advising the process to coach the management and the team on how to prepare themselves to present the company for sale. It's something that they have never done, or if they're unlucky enough, they have been caught in it a couple of times from two different previous transactions, but it's something that is not done every day, so they never think about that. Also, many times we find that when we start working with the senior management employees, sometimes they don't know that the company is for sale, so the owners tell you to keep it a secret. Here you are sniffing around, but you can't say why.

They figure it out pretty quickly, but they might not agree with it and don't know why. There's a cloud of mystery in many cases, and certainly the owners don't want everybody in the company to know because it could create morale problems and migration issues and so on, so we have to help develop a value, sustain it, defend it and explain it, and we have to coach the management along with the investment banker and other parties to coach the process to present the company, to be consistent. If, during the due diligence process, the buying side asks a question, it's going to ask that question of different people, and you want to make sure that you get the same answer, so you have to coach everybody. If it asks this question, everybody has to answer what is right, and the right answer is blue. When we are on the due diligence side, we do the same thing. If we find that somebody answers green and somebody else says yellow, we go right in between those two. You have to also coach them on how to present it and be consistent.

In terms of the more technical role of the actuary, we help put a value in front of them. It's the referential value, and no more than that. Every buyer will pay differently according to his or her needs, his or her strategic direction or his or her dynamic thinking. What we do is come up with a reference value, and at the end of the day, the buyer might not agree with that value because its assumptions or assessment of the company are different. Our role as independent actuary is to make sure that value is technically correct, that it is calculated correctly based on a series of assumptions that are now a matter of opinion. The buyer might not think that you're going to grow the company 10 percent a year. You think it's going to grow 12 percent, but that's a matter of opinion. The important thing for us, according to ASOP-19, is to produce a reliable, consistent, defendable and explainable process.

That process includes three components. We look at the adjusted book value of the company: We take the capital and adjust it up or down for things that we feel are appropriate. For instance, we mark certain assets to market and adjust the reserves if we feel the reserves are inadequate, or if incurred but not reported (IBNR) claims reserves or case reserves are not properly stated, we make adjustments up or down, so that's what we call the adjusted book value.

Then we appraise the value of the in force. We take the existing in force by line of business, by product, and run them off over a horizon of 20 or 30 years based on historically developed assumptions or persistency mortality expenses and expectations of future run-off, and we run sensitivities on those. What happens if the expense is this or that of persistency, investments or mortality to assess how volatile that value might be, and we discount it at some discount rates? The determination of discount rates is much more an art than a science because every investment banker's econometrics department will give you a different assessment of what the discount rates will be in terms of country risk instead of currency devaluation expectations, enrichment money in the country and so forth. We typically present a range of this country to frame the discussion. It should be no

lower than this, but no higher than this. We do it by the different lines of business that are relevant.

Depending on the time, the budget and the level of data that we have, we could get detailed in assessing the in force, or we can make ball-park assessments. We can go policy by policy and get extracts of the entire portfolio of the company and do a run with models that we develop, or we could do rough trending of the financial statements over the past few years and try to gauge ratios and relationships and forward those in a run-off mode. You can run the spectrum of detail.

In some of the situations, particularly in Latin America where the data are not always the greatest, we try to be approximately right instead of precisely wrong. By that I mean that sometimes you cannot mine the data to the level of detail that you would like, and if you try to do that, you're going to start making mistakes because the data are not that robust.

The last piece is assessing the future route of the company. Appraising the value of future business is in a way a proxy for putting some goodwill on the company: How much is the distribution worth, how much is the name worth, how much is the market presence it has worth and what is the value of the management team or the systems that it has? One accepted and adopted approach to do that is to calculate 10, 15 years or five years, in some instances, of new business under the same kind of profile that the company has today. In other words you say, "This company has an installed capacity today as an evaluation date. We think that it can continue selling this way with a certain rate of growth for the next five, 10 or 15 years," and that value, which is similar to the approach that you do to value in force, becomes the value of the new business. That's the proxy for the goodwill of the company, and that's what we do.

By the way, the first two components, book value and appraisal value, are basically what people call embedded values. Many companies calculate embedded values once a year, taking a snapshot of those two first components. In some instances they throw in one year of new business, but theoretically speaking, the first two components constitute what is called embedded value.

What are the responsibilities on behalf of the seller and the owner? We have the seller's addressed items that will be contested and discounted in the negotiation—the good, bad and ugly. Our role is to be the first line of due diligence on behalf of the seller. We try to poke, pierce and open up anything that is going to be an issue during the due diligence, and we tell our clients that we're going to be just as tough as the people they'll see on the other side of the table when they go live with the due diligence, and so we adhere strictly to ASOP-19, which lays out what the structure should be in preparing an appraisal value—what things you have to disclose and what things you have to mention—and we become an inside due diligence agent for the first duration of this process to make sure that the company understands what it has in its hands, what its weaknesses are and how to address

those kinds of concerns before a buyer. We ask the same types of questions that we typically ask when we are on the due diligence side, so we ask the same questions and hear the same answers and see if we get blue here and green there, and then we address why there is that difference.

Our responsibility, then, is to protect the seller in an independent and transparent way, to prepare it for what's going to happen, the kinds of questions it's going to get and how to address them. Milliman's foremost asset is its independence, so we take good care of being totally independent at all times. We do not try to present the buyer's side. We want to make sure that what we present is something we, ourselves, can defend and can explain to others, and we follow the ASOP-19, which outlines how to prepare an appraisal basis.

In terms of logistics and timing, in almost every case, the client takes its time evaluating our proposal to do the work, and once it accepts it, it wants our results in three weeks. In every case the process takes between six months to a year because there are many items, many moving parts, that we don't control, that the company doesn't control, or the market doesn't even control, and Sam can speak to that, as well, but in every case, it's hurry up and wait. We hurry up to produce a proposal, the company munches on it and sometimes lets it go for six months, and all of a sudden you get a phone call asking whether you can start on Monday. You have to start Monday. Things take a long time. There's always an urgency of sale. There's always some market condition that if we don't take advantage of right now, it will be Armageddon, always.

There's also an investment banker's strategy as to which companies to approach, how to approach them and what the weaknesses and strengths are of different buyers and different sellers to try to align. One of the roles of the investment banker, and Sam, I'm sure, will speak to it, is to try to make a good fit up front so that you don't waste time on either side going down the road, making presentations and preparing information memoranda for a company that is not a good fit. Then we always struggle with the availability and the quality of the data. The availability refers to both what is available and what the company wants to give you because that's another issue that we're going to talk a little bit about.

Regarding data requests, we start by providing the company with a detailed data request. The data request is for us to understand the company, inventory what it has, understand how it develops and distributes the products and how it invests its money—investment policy, distribution policy, underwriting policy and so on. It never has it complete. It says, "We have it. Next week, you'll have it." Three months later we're still trying to scratch it out of the company. Or it gives it to us, and it's full of holes and doesn't make any sense. It's totally inconsistent. That's the process where we have to start scrubbing the data and bringing them together. This is probably where we spend most of our time doing an appraisal: preparing the data for use because what the company gives us more times than not is basically unusable for whatever reason, whatever the product.

When you start talking to them, all companies say that if their proposal is accepted, they'll give us that: "No problem. We have all the data. We have a great system and have all the data." This is never is the case. It's never the case, so you have to be polite and say, "Your data are bad," but you have to be polite. We spend most of the time in our budgets trying to get clean, usable data, and then you go into the level of accuracy. Then with those data we start trying to develop assumptions that are explainable, consistent and defendable. As you can imagine, many times the client wants us to inch the assumptions for the better because it will look good and add value, and we fight that without any feelings. We say, "No, push back, push back. Explain to me why because if you don't explain why to me, you're not going to be able to explain why to a buyer, and that's not going to look good, because there's an element of negotiation control."

If you put a proposition of value in front of somebody for your car, and that person goes around and kicks the tires and cannot find a problem with the car, basically it's your price, but if the person goes around and kicks the tires, and the muffler falls off with the first kick, and the taillight falls off or is broken, it's not your price anymore. It's the other person's price. The economics of the negotiation changes quickly, and so we are meticulous about making sure that the seller maintains control of the price. The way to do that is by making the appraisal report absolutely bulletproof because the moment they pierce the report with one bullet, it's the buyer's price. It's not yours any more because the buyer's going to say, "This doesn't work; what else doesn't work that we haven't found out? I think the company is worth this, not what you say," so that totally changes.

By the same token, when we are on the due diligence side, we try to put bullets everywhere we can. The price is what the seller says it is because the appraisal stands on its own. What we also do as part of that process to create that bulletproof security is perform a lot of dynamic and static validation of the models. If we do a full-fledged appraisal, which involves policy-level analysis, we go policy by policy to the in-force file, we replicate that policy value for each policy on our models, and that's what is called dynamic validation. Then we run all those policies through our models to replicate the financial statement by line of business, and that's called static validation. Until we have the dynamic and the static validation checked, we don't move forward to project anything because we want to make sure that our models coincide as of the valuation date with the audited statements of the company. That provides a good insurance policy, if you will, of the models that are replicated in the company at least at that point in time, and then we start projecting with gross projections, persistency and so on.

We want to make absolutely sure that there's internal consistency. Many times we find out that when we start an appraisal of the company, many of the functions of the company don't talk to each other. The marketing guy goes and sells; he doesn't care what happens in the back office. He never talks to the guys over there. He just goes and sells. We basically put them in the room, and that's when we start asking the same questions and see how they answer, so it's absolutely imperative that

they all understand what the company looks like from different angles. For them, many times this experience teaches them what their company looks like, which they've only been seeing a little corner of. With this exercise, they start seeing how the entire company fits together. It's the only way to insure that they are consistent among themselves at a functional level to understand what the company looks like when the bidding comes around.

The final thing that we do is sensitivity analysis to those assumptions. What if mortality is better or worse, expense is better or worse, investment is better or worse, and persistency is better or worse, to gauge the volatility of the results? Who knows if it makes sense to spend three days arguing whether it should be 98 percent of the table or 102 percent of the table, for whatever reason?

Cultural considerations are interesting. In many of these transactions in the past few years, the process has been a family selling to a multinational group for whatever reason. It doesn't have enough capital to continue growing the company, some of the multinationals are already coming in and spending money, it knows that the multinationals have pockets with no end, and at some point, it says, "We can't keep up. We started this company in 1898, and our father and grandfather were involved, but the reality is we can't keep it up." Or now the grandchildren of that founder are all playboys and don't want to deal with this company: "Cash out, and give me the money. I'm in the Bahamas. I want to play with it." The family sells.

You have different parts here because sometimes you have owners or members of the family, some of whom want to continue and some of whom don't, so there's a little fraction there. The management employees who work for that family are concerned about what's going to happen to them, and they don't want to sell. They all perceive that these multinationals are these big monsters that come in oozing talent and expertise, and they're going to be flushing them out. Sometimes that happens. In some cases, it might be the government selling. The management has never done this before, so this is by itself a culture shock to them to open up the company and show the good, the bad and the ugly to people they have never seen before and likely are not going to see again. In a sense, they feel it exposes their weaknesses, incompetencies and shortcomings. There are real feelings involved.

Again, management employees might boycott it, might not cooperate with you and might be difficult under the circumstances. They don't know what's going to happen to them, and there's also an issue of business ethics. Every country has a different perspective of what ethics are all about. We in North America and Europe have certain ideas. In other countries they don't work that way, and for those people, it's perfectly normal to consider things that we would consider totally undoable as perfectly day-to-day business.

Regarding due diligence considerations, there are a lot of the same ideas. The role of the actuary is now to protect the buyer, make sure that he's getting a good deal

and make sure that he's not buying a bill of goods that is not defendable and supportable. We don't have to create a reference value. We have to poke it to see if it's real, if it's there, and if it's sustainable and defendable. We probe for internal inconsistencies and assist the buyer during due diligence with what questions to ask, what areas to look into at the company and what assumptions to focus on and which ones not to. Our responsibility is to represent the buyer's interests, address all issues, preserve our independence and follow ASOP-19.

The timing is a little different on due diligence because you basically get exposed to the company for a week to do that data request. You get the appraisal prepared by the sellers and get access to a data room. With that information, you have to build a sense of value and make your recommendations to your client.

The same kind of issues now are coming from the outside in. You have to deal with people. You're asking them to trust you, but they know that they shouldn't because if you buy, they might be out of a job six months later. It's the same thing with cultural issues, where it's a difficult situation that you cannot ignore. As actuaries, you have to calculate numbers and present a report, but in getting there you have to interact with people from different cultures and different languages. You have to gain their trust. You have to coach them and teach them a little bit of what you are trying to do for their own betterment. In many cases you can turn that around, and the situation is a lot smoother. We have to manage expectations on both sides all the time and manage egos. You can have a general manager that is all-powerful and all-mighty being told by his shareholders, owners or family that he is being sold. You have to deal with those kinds of ego issues.

I have an anecdote. We did the privatization of Aseguradora Hidalgo in Mexico with Sam, and when we went to the launching meeting, the general manager of the company had been a government appointee, who used to be Secretary of Education. He was a bombastic guy with a big ego. He was arrogant—he was a politician—and he came to this meeting and tried to create the aura that he was going to be running this place. He was appointed by the government to sell the company, but he didn't want to sell it. He was not going to say that, but he didn't really want to sell it. That became clear during the process. During this meeting, we had about 30 people, including investment bankers on both sides, and he said, "People who know me know that I have a guillotine in my office." He was serious and looked around. I asked the guy, "How sharp are the blades?" That broke the ice at the meeting, but he was trying to create a tone that he was the gatekeeper of the process, nobody could go behind his back, and he didn't want to sell. He didn't want to lose his job, which ultimately he did. You have to deal with those things.

MR. HORBATT: I have a question. When you get to a foreign country and are asking for data and other information from a company, what's the relative quality of the actuarial and technical staff compared to what you're used to in the United States?

MR. SALAZAR: That's an interesting point. Recently in the December issue of *The Actuary*, there was an article which asked that same question over a telephone interview for this article. The article was, " The Image of the Actuary: How Does the Profession Measure Up In Other Parts of the World?" The comment that interviewee made in regard to Latin America, and particularly Mexico, was that in Mexico, actuaries are considered good technicians, but you don't find a lot of actuaries in senior management or strategic positions or involved in serious decisionmaking. They almost killed him in Mexico over that comment. "How dare you say we are not blah-blah-blah?" But that is true. The profession in the United States, Canada and the United Kingdom has evolved differently. We have the certification process, and we have the respect of the insurance community. In the United States and Canada, you find a lot of actuaries in senior management positions throughout. That's not the case in Mexico, but they did not want to see that in print.

In Brazil, for instance, it's even more pronounced. There, actuaries are basically considered glorified clerks, so no actuaries are in senior management positions. They yell, "Give me a rate and shut up." That's basically what it is. For us, coming into these markets with the profile that we have from the U.S. perspective is something that they don't get, so when we appraise a company in Brazil, upper management says, "Actuaries are appraising this thing? They are just clerks. What are they doing here?" There's a big distinction between the actuarial profession in the United States and Canada and the actuarial profession throughout Latin America.

MR. HORBATT: Now here's Elisa Wever, from Scotiabank.

MS. ELISA M. WEAVER: I work for the insurance arm of the Bank of Nova Scotia in Toronto. Before that I was with a consulting firm for a number of years, and before that I was with a Canadian insurance company, so I am now in less of a traditional actuarial role and am currently responsible for market development in international markets.

Rather than delve right into our insurance M&A experience over the past years with the bank, I'd like to give you some background first on the bank and its insurance unit and then talk about how we approach insurance development in international markets. I will talk about what considerations we go through to determine whether we should rent, buy or build an insurer. Building or buying for us are not the only alternatives of going into a market. I'll go over two specific case studies that I've looked through in the past year. Going back to the point that Camilo mentioned about business ethics, I'll give you some real-life examples of something we differed in in a particular acquisition case.

We built a company in Jamaica. We have two buying examples, one successful one, which we're in the midst of closing right now, and one unsuccessful one. I think that learning from our failures gives us insight into what not to do the next time around.

Scotiabank is one of five major Canadian banks. It started in 1832 in Halifax, Nova Scotia, and it was established to facilitate the thriving trans-Atlantic trade among Britain, North America and the West Indies. Beginning in the 1880s, Scotiabank moved westward across Canada, and by the early 1900s, it had a national branch network. The expansion was then accelerated by amalgamation with four other banks in the first two decades of the 1990s, and then when the financial services sector deregulated in the late 1980s and 1990s, the bank further diversified its Canadian operations through major acquisitions, including an investment dealer and trust companies.

Scotiabank's first office outside Canada was in Minnesota in the 1880s, I think it was. Then in 1889 the bank opened its first branch in Jamaica, so Bank of Nova Scotia was in Jamaica before it was in Toronto.

The branch in Kingston, Jamaica, was established to facilitate the trading of sugar, rum and fish with Britain. Then the bank expanded its presence in the Caribbean, and today Scotiabank is Canada's most international bank. It is the bank of the Caribbean (there is no one bigger than Scotiabank in the Caribbean), and we have a significant presence in several countries in Latin America.

As I said, we are one of five major Canadian banks, and our returns have been highest among our Canadian peers for almost any period. (I'll get back into how this fits into our acquisition strategy when we do M&A.) Our shareholders have been rewarded with excellent overall returns, thanks to consistent dividend increases and strong appreciation of our share price.

Our performance has also been remarkable against other global financial institutions. Again, we have an enviable position as being within the top five in almost any year of comparison.

We're focused on our one-team/one-goal philosophy, which underscores everything that we do. It is part of our culture to work together across businesses and countries for the success of the bank as a whole. Our goal is to be the best Canadian-based, international financial services company, and to achieve this we need to generate profitable and sustainable growth. It is within this philosophy that we approach our market development opportunities.

I'd like to turn now to what I believe is the number-one challenge facing companies today: achieving profitable and sustainable growth. To be successful we must serve all our stakeholders, which are our shareholders, our customers, our employees and the communities in which we operate. We will not pursue growth at all costs for short-term or one-time gain. There is a clear need to balance short-term and long-term objectives. We believe that we can achieve sustainable earnings growth by focusing on three emerging strategies, which are first to build our customer base, making customer relationships deeper and acquiring new customers. Second is to

continue to leverage our core strength and share best practices across our groups. Again, this is our one-team/one-goal philosophy, a unique opportunity particularly for international operations. Third, we try to optimize the use of our capital. We have a strong capital base and intend to deploy this capital in a disciplined way to fund organic growth and also make acquisitions. We're focused on long-term earnings and dividend growth to continue to drive total shareholder return.

One of our top three priorities for achieving sustainable growth is optimizing the use of capital. In the context of today's presentation, this is the only one of the priorities that I will talk about. We have a strong capital base with the highest tangible common equity ratio of our peer group, and we're also generating a lot of capital internally. We had net income of $788 million for the first fiscal quarter of 2005. This capital strength gives us the ability to finance our growth initiatives whether we are pursuing organic growth or making acquisitions.

With that overview in mind, I'd like to turn now to our insurance operations. More than being a company, Scotia Insurance is a group of insurance professionals with the mission to be best at identifying and capitalizing on insurance opportunities within an integrated bank culture. That is, we look for the intersection of insurance tools, bank strengths and market opportunities to find ground to act on. We manage the insurance business of the global banks through subsidiaries and partnerships in Canada, in the English Caribbean and in Latin America.

In the English Caribbean we manage insurance businesses in 19 countries and have insurance subsidiaries in Jamaica and Trinidad and a reinsurance subsidiary in Barbados. In Latin America, we manage insurance businesses in six bank subsidiaries and are in the process of acquiring our first insurance subsidiary in El Salvador. That insurance subsidiary in turn owns another insurance company in Guatemala.

Our approach to insurance development is, I believe, unique. We are a relatively new group within the international bank. It was created around 12 years ago. Our businesses in those 12 years have evolved from being a bank expense. It used to be that the bank gave insurance coverage to its customers at the bank cost. Now, it's a significant earnings generator for the bank. We like to participate in risks in markets where it makes sense for us. We like to leverage bank strength. How we participate in risk-sharing depends on the types of products. For risk-only products, for example, we tend to view an insurance license as nonessential. We work with partners, rent their license and move on.

For products with a savings component where the customer is coming to the bank for its name, we have a slightly different view, and I'll get into that in a little while. We like to use our captive in Barbados to assume risk where we don't have licenses, and this has been essential in markets where the scale is so small that having a license would not make sense like many of the 24 jurisdictions where we operate in the Caribbean. We're disciplined in how we utilize our capital. All

acquisitions are carefully evaluated in terms of the short-term end risk and return and the strategic merit of the acquisition.

When looking specifically at acquisition criteria, we have some guidance principles. First, we look for ways that we can bring value to an acquisition to leverage our core competitive strength, bring in our knowledge and skills and use our strong capital base. Second, we look for ways to obtain value. We will pay fair value, but we believe that it's difficult to create significant shareholder value when you pay a large premium. We believe it's better to be patient and pay a reasonable price, especially if we feel that there is significant growth potential in a particular market or customer segment or the purchase fills a void in our product line. We also look for value in markets where we feel we have an above-average growth potential with favorable demographics where we have a banking presence. We typically will not go in a market where the bank is not already there.

This makes it easier. When we have a presence in a market, it makes it easier for us to enter with insurance because we can have synergies with the bank. We like insurance and pension funds and view them as complementary to banking.

Finally, we are opportunistic. There are many possible reasons a company or a portfolio may become available, such as a distress situation or a change in government policy. These don't happen according to a schedule, so we look for opportunities as they present themselves. We're willing to act if we believe the risk/return trade-off is advantageous. For us, being opportunistic means being aware of all opportunities in our target markets and then exercising discipline in valuation and execution.

This is an example where we rent licenses. In the Caribbean we are present throughout the region in many small jurisdictions. The creditor-related risk products, such as life, homeowners, auto and accidental death and dismemberment (AD&D), are really commodity products. They're a natural cross-sale to bank retail customers, and for creditors the bank is the beneficiary, so we don't feel that having an insurance license for these products is essential. What we do then is we approach local insurers and rent their licenses. This means that we use them as fronting partners. We use their administration capacity, we use their product expertise, and then we take the risk through reinsurance. This way we avoid having licenses in small jurisdictions. We don't have overhead. We rent the capacity of players that are already efficient, and I think it's a win-win arrangement for both the bank and the partner. We do this basically for mass-marketed products, whether they're credit-related or not, but we do this solely for risk products that have no savings components.

In Jamaica, we started a company in 1998. The market is highly regulated. There are different tax and reserve requirements between banking and insurance products. For example, insurance companies are taxed on different income at different corporate tax rates than banks and have different reserving requirements,

whether you save through an insurance policy or through a bank product, so we look for opportunities where we could offer our customers a bank-like product in a UL-type insurance vehicle. Because of the different reserving and tax treatments, we could offer significantly better rates for the customers in that product through an insurance vehicle.

In this case, Scotiabank has a significant presence in Jamaica, and there is a strong brand name, so we capitalized on that. The customer came to us buying Scotiabank's brand and security, and the demand was for a savings-like product where we could offer through the insurance vehicles substantially better rates. We thought that the reinsurance opportunities were rather small in this particular product because the risk component was small, and there were no tax synergies. In this case we decided to build a company from scratch.

In El Salvador, we've recently bought a company, and again the company bought one significant bank. We already had a banking presence, but at the end of last year the bank decided to expand, buy another bank and merge the two banks, and the new bank had an insurance subsidiary that was available for sale. In this particular case, the company fit our buy criteria. It added value to us because El Salvador is a small market, and there are no international players with the exception of a branch of a U.S. company, a subsidiary of a Spanish insurer and AIG, too. The rest of the companies were all local players, and we felt that although we could continue renting our license to offer creditor products to our customers, buying this company was opportunistic and created value for us.

I'm going to do the insurance company example of why it made sense to buy. We're in the process right now of closing that transaction. In these small markets most of the value of these companies that are within financial conglomerates is derived from the bank-related business, so it was a no-brainer for us. This is something that made sense.

The other case, the pension company where we lost, is quite an example. This was last year. We were approached by the seller to see if we had any interest. We knew that there was one other party interested in buying the company. We went to a data room and did our due diligence. We were given deadlines to present our binding offer. We were told that the existing shareholder's agreements had tag-along rights. That means that the other minority shareholders can choose to tag along with the seller at the same price and sell their stakes, and we were fine with that because we wanted to buy up to 100 percent of this company.

We were told late in the game also that the minority shareholders had a right of first refusal, meaning that when they were presented with our offer, which the seller had to present because of the tag-along rights, they also had the right to match the offer and buy the company. We looked at all the minority shareholders and considered approaching one of them and saying, "For a price, would you exercise your right to buy and then sell to us?" This way we would secure the

acquisition. We felt it was not ethical, so we didn't do it. We presented our bids. Again, there were the two bids (our bid and the other bidder), and then we had a two-week period in which the minority shareholders assessed the offer. They had to decide whether they wanted to sell or not in that two-week period and then also at the end had the right to match the offer.

We were told by the seller that we were the winning bid. Then we had a two-week period in which the minority shareholders evaluated the offer to decide whether they wanted to sell or exercise the right of first refusal. The day before the two weeks expired, we were told that one of the minority shareholders wanted to exercise the right to buy, and so we lost it. It turns out, though, that it was the losing bid that had approached them and bought the company the next day after the minority shareholder exercised the right to buy. This is an example where North American ethics do not apply.

MR. HORBATT: Do you now challenge your North American ethics? When the day is over, do you now question your North American ethics?

MS. WEAVER: I don't think so. This is who we are. This is part of our core of values.

FROM THE FLOOR: Did the other bidder pay more or less than you were willing to pay?

MS. WEAVER: These are not major acquisitions because these are smaller markets. Our bid for this company was $70 million. The loser had bid $48 million and had to come up with the extra $22 million, so it was so nervous about this purchase that the sequence was going to be to sign the contract after the two weeks and then have a 90-day due diligence period before closing. It waived the 90-day due diligence and closed the same day.

FROM THE FLOOR: It trusted your due diligence, I guess.

MS. WEAVER: All we had done was a data room, the same as it had, so this is one example that I've learned from the hard way. Any other questions?

MR. HORBATT: I assume that was Latin America.

MS. WEAVER: Of course.

MR. HORBATT: It could have been the Caribbean.

MS. WEAVER: No, it's Spanish-speaking Latin America. We continue to use acquisitions to accelerate growth. We have a unique position and expertise. We use our disciplined approach, and we focus an execution to drive shareholder return.

FROM THE FLOOR: In looking at your buy, build or rent, in terms of return on capital or whatever measure you use internally, do you look at achieving the same return whether you're looking at any of the strategies?

MS. WEAVER: Not really. It's more a customer approach and management stretch and breadth, as well, because we are a relatively small group in Canada managing the insurance business for the bank as a whole, and we have many international jurisdictions. We know that we cannot be better in many instances than local players that have been there for a long time and that have expertise with their own local market. Even in markets as large as Mexico, where our insurance portfolio right now is close to $100 million in premiums, we don't have a company because right now we don't offer our customers products with a savings component where the customer is then buying the bank brand.

If it's risk products, we partner in particular in Mexico. We have several big partners. We are big partners with ING, for example, and ING is the first- or second-largest in Mexico. We don't only work with them; we work also with at least three other companies. That way we rent their capacity. They are big in auto insurance, for example, and for auto insurance to be efficient you have to have a lot of infrastructure, so we render infrastructure. We negotiate allowances and then participate through reinsurance. Again, it's a win-win situation for both partners because it uses its infrastructure, and we don't have to have one and can rent an efficient one.

MR. HORBATT: Now I would like to introduce David Chalfin from New York Life. We're going on our string of nonactuaries for a little bit here. David is going to be talking about the issue of target company selection.

MR. DAVID A. CHALFIN: I work in the M&A group at New York Life. New York Life is divided into three or four basic groups, depending on how you count. There's the big domestic life and annuity company. Five years ago we set up an asset management subsidiary drawing together our various investment management capabilities supporting our separate accounts; our general accounts; our retirement platform; our two big institutional managers, McKai and McMorgan; our mutual fund family; and finally our international group. Today I plan to talk a little bit about how our international group approaches M&A activities, touching on the kinds of companies we look to buy and why and focusing in particular on a distinctively representative type of target.

To discuss target company selection, we have to decide how broadly to circumscribe the discussion. At some point we have to establish first principles within which to operate. We won't start as broadly as the design of New York Life's portfolio companies, but we could. We'll start with New York Life's international mission, which is manufacture and distribute life insurance products and asset management products in high-growth emerging markets, typically targeting developing countries where life insurance penetration is low but likely to develop.

These are typically countries with long-term economic favorable situations, perhaps in the context of short-term volatility. We focus on Latin America and Asia, growing economies with growing middle classes. We mitigate risk by diversifying, meaning operating in numerous countries.

Selection of targets and deal type depends in large part on your situation on the ground, what you have. For example, you may have no operations; in our case, this is Brazil. We consider Brazil to be an important market. It's one of the two major areas of interest in Latin America for us. It's an obvious choice. It's the largest economy in Latin America; it represents about one-third of all economic activity in Latin America; it's the fifth most populous country in the world with 178 million inhabitants; it has positive macroeconomic factors; inflation is under control; the government is focused on structural reforms, legal reforms and strict monetary and fiscal policies; and there is significant growth potential. For example, Brazil has penetration in the life area, about half of what Chile has.

A second kind of situation is where we have a small or subscale operation, for example, Korea. Korea is a strategically important market. It's the largest insurance market in Asia ex-Japan. It has well-established savings, culture and favorable demographic factors that will continue to drive industry growth, increasing life expectancy, expanding saving years' population, economic expansion and so forth, but for us we're small in Korea. Our operation is small and without scale, so we look for targets that would increase scale. Of the 23 Korean life companies, we're among the smallest.

You look out at the landscape. There are three large domestic companies that control about 70 percent of life premium: Samsung, Korea Life and Kyobo. To make those kinds of acquisitions would be enormous in terms of investments, although there are two now in the press as selling minority stakes. Samsung is reported to be in talks with KKR. KKR is reported to be interested in buying a 17 percent or 18 percent interest for over $2 billion, and then there's the second company, I think Korea Life, looking to do a deal, as well, but again these would be minority deals.

To gain scale apart from the big three, you look at the splintered list of other companies in the Korean market ranging from 0.1 percent on the low end, which wouldn't do much for almost any player, to a high of about 3 percent of market share, so ideally if you were doing an acquisition in Korea with subscale operation, unless you could go after one of the big gorillas, you'd look to be at the top of the 3 percent range.

Mexico, for us, is a major presence as the top 1 percent to 3 percent market share. In that type of country, your strategic thinking about what kinds of targets you buy would lead you to expand footprint, for example, into related industries, perhaps pension companies, mutual fund companies or other financial services companies where you could expand footprint and perhaps gather other financial services

customers. Depending on what you have on the ground, there are different views of what you want to go and target.

Regarding what we have on the ground, we operate in nine markets and four via outright or near outright ownership, close to the 100 percent situation. In one we operate via a clear majority of economics with control, three are via joint ventures with some shared control of significant matters, and in one country we operate with a minority ownership stake, but with some management influence not control.

As to deal types, we can go back and describe three different basic types. One is the 100 percent or near-100 percent acquisition, which is perhaps the most desirable. If, for example, you are on the ground already and are looking to do a consolidating deal, gain expense synergies or get revenue synergies through consolidation with your on-the-ground operations, 100 percent acquisition is probably the easiest and perhaps the most feasible in light of likely related party and legal concerns. For example, if you already owned 100 percent of the company, it would be difficult to buy 80 percent of a company and then in some form consolidate the companies because the shareholding arrangements are different, and it's not so simple to do. It's not impossible, but it's not easy.

A second common type of acquisition structure, which we typically do look to do, are joint ventures, which are common in emerging markets M&A. I call this a meeting of symbiotic needs, and there are stereotypical needs that one has heard over the years in emerging markets, such as local companies with need for capital. We were involved in a transaction looking at a company that Sam was involved in in Chile that had to deal with retirement annuities. It had enormously high capital requirements, which made it difficult for the local partner to come up with money, so that's the standard type, where the local company needs capital, and we're a big foreign player with a lot of capital.

Oftentimes what a foreign player needs is brand or distribution capacity. Typically each party looks to contribute its strengths. In our case, for example, we might have capital or knowledge of product design, product development, particular actuarial skills or the ability to build the IT infrastructure. Often the local partner will contribute brand or distribution system. In these kinds of situations, paramount becomes control of the operation, since there are two entities, each with economics and each with control, which I'll come back to.

Another important thing we look at is the view of the horizon: strategically how it is that insurance will be done in an area. Apart from the macroeconomics of a country, meaning whether the country is stable or growing, not shocked by inflation, not in the middle of a currency crisis or not in recession, we look to see whether there is a stable and growing middle class and whether the consumers have expendable income. For example, consumers typically buy insurance. As the middle class expands, you buy your home and your appliances and perhaps deal with education and then turn to something as luxurious as life insurance.

We look at the legal background in a country. For example, Brazil put in legislation recently for savings and pension products (PBGL and VBGL, which are enormous high-growth products based on legal pension regime). We look at how it is that products get distributed and how they will get distributed. In Brazil the top 10 insurance companies control about three-quarters of all insurance premium, and seven of those top 10 are affiliated with banks. You face a basic question in approaching target selection in that country, which is whether to go into Brazil through a bank relationship or not. In our case we've looked at both types of situations. Obviously we're looking for scale, we're looking to be a big company, and we're not looking to buy little beachheads in places, so for that reason it would be advantageous to go in to a bank relationship. On the other hand, in those situations everyone else is thinking probably the same thing and therefore processes become more competitive.

I want to talk about some interesting aspects of joint ventures, focusing a little bit on the bancassurance example. A natural structure for a foreign buyer to buy into bancassurance is, in my view, a joint venture. The reason is that you want your joint venture partner to not only be in charge of or with a capacity, ability and distribution, but also to share in the economics of the entity that you own with your partner. You don't want it simply to be renting the distribution channel. It certainly can be done, and the protective mechanisms I'm going to talk about can help both in a situation where you are in the context of owning a joint venture company with your bank distribution partner or in simply going into a bank distribution arrangement where the bank distribution partner has a 0 percent economic interest. These protective mechanisms work in either. Perhaps they're more relevant where the partner has no economic interest.

Earnout is an example. Clearly everyone talks about earnout. The idea is to align the incentives of your bank distribution partner with yours. Some sales goals are met. You have payments to the entity as you go. It's a pay-and-give-value-as-you-go arrangement, and a lot of attention is paid not only to volume, but to profitability because if it's simply a matter of selling and meeting certain volume goals, the insurance company may be selling underpriced products or products that aren't profitable. This gives value to the bank partner without value being reached by the joint venture itself.

Another type of arrangement you deal with, where the devil is in the details, is exclusivity when you are dealing with a bank. At the broad level, you can talk about exclusivity as who has the right to put product on the shelf through a certain bank distribution channel. It's not even within exclusivity of the life product or the pension product itself, but how you have control over what your access will be, which is the bank distribution channel, as distinguished from whatever other partners this particular bank has whom it has gotten value from—perhaps from up-front payments or through joint ventures—putting through its channel mortgage

products, education-based products, lottery products or whatever products you want to put through.

For one thing, you are going to have to pay attention to access. These are the products that are not your own products. Second, and perhaps most important (this gets a lot of attention when you deal with and look at documentation), is exclusivity as to the definition of product itself. The bank says to the joint venture company, "We want a life product with the following three characteristics, and here are the pricing criteria we need and the volumes that we need." What if the joint venture company says, "I'm sorry, we're not able to supply that product because we can't price it in that particular way"? Does that give the bank the right to find some other entity to sell product through the channel? Of course, that would put the joint venture company in relationship with the bank distribution in a reasonably weak position, so you're going to try to get as much exclusivity as possible: "If we're not supplying the life product, no one is supplying the life product."

Unwind is the last mechanism, which is uncommon to see but often talked about. The fear is that you've paid for distribution up front, and it doesn't come to pass, so if certain targets aren't met, you want to say to the seller, "We want part of our money back." You want to make it formulaic so some of the money comes back, but obviously in the context of competition and processes, particularly if more than one company is looking to get into bank distribution, the unwind arrangements, at least in my experience, rarely get into what ends up.

Joint ventures, because they're shared control, have a basic list of simple issues to grapple with. Who chooses the officers? Who appoints which ones? Will there be a rotating CEO? Often this implicates what your view is of what you bring to the venture itself. It's between you and your joint venture partner. For example, is the chief financial officer from the foreign party or the local party? Perhaps the chief of marketing or distribution is the officer appointed by the local party, but that's the basis on which the deal gets done, the basis of the symbiosis. What about the chief underwriting officer? Who is the expert in insurance? Where does the actuarial skill lie? Regarding the board of directors, how many directors does each side get?

The most interesting arrangement to address and deal with is 50/50 deadlock or a 50/50 situation, where each side literally doesn't have majority control, and what this brings up is deadlock. What happens if two parties can't agree? There are all kinds of interesting governance issues, such as quorums. How many from each side need to be present at meetings? What specific actions need what specific types of majorities? There is typically a long list of specific types of actions as to which each side needs. Perhaps each side has a veto, or there's some kind of supermajority. There are matters such as declaration of dividends, capital and M&A. The major aspects of a particular company are going to be set forth and specified on a list, and even here when you specify in the context of governance what things can give rise to deadlock, there's going to be a concern about avoiding what I call the eggshell joint venture, making it so that it's neither party can disagree quickly and

cause the break-up. There's a balancing that you have to look for for important actions.

Finally, an important one is capital obligations. What happens in the future as to each party's obligation to contribute capital to the joint venture, particularly the minimum regulatory capital? Does each party have the right to buy additional shares? If one party doesn't buy the shares, does the other party have the right to buy the shares, and then what happens with all the control aspects? Do you get more voting control or not?

Up to certain thresholds, there is no extra vote, but after a certain threshold, yes, there is, and someone has majority control, and the dynamics of the venture turn around.

A recurring issue that we discussed is deadlock, whether it's because of officers, the board of directors or reserved actions you can't get agreement on. There's a failure to get the required majority, in many cases, or a failure to get the required votes for a specified matter. Typically each joint venture partner can have the right to trigger a deadlock. Then what happens? In most scenarios, I would say, there is some kind of fairness procedure for each side to be able to bid, to buy or to sell its interest; to buy out the other person; or to sell its interest to the other party. It's almost like the example where two kids are deciding on a cookie, and one cuts it, and the other one picks. There's some aspect of pure procedural justice there because of the mechanism employed, so it's often the case that you will employ mechanisms for each side to be able to bid on the joint venture after a valuation has been done by each side or by a common third party to assure fairness.

In the joint venture bancassurance arrangement, though, there are a couple of wrinkles that I want to point out, a couple of interesting asymmetries. If your basic distribution method is through your joint venture partner, in particular a bank joint venture partner, it may not make sense at all for two parties (for the insurance joint venture party) to call. It may only make sense to put because if you call, you're sitting there with an insurance company that as its main distribution distributes through a relationship with a joint venture partner that failed. Who knows why it failed. When you're cooking up the rules that are going to govern the joint venture, you never know at that point what will have taken place as to why the joint venture will be in the mode of failing, splitting up or breaking up, so it's possible that you might through a contractual provision say, "Yes, as a joint venture bancassurance partner, I want to be able to call the other guy's shares, but it's not likely, and it's probably impractical, not feasible."

There's a second wrinkle: How are you going to assess the value in the event of a breakup? Let's say that the joint venture partner, the foreign partner, has a put rate. How do you assess value? One way to think about doing it, which protects the joint venture partner, is to look back at the assumptions that you made when you initially priced the joint venture relationship itself. What were your expense and

revenue assumptions, and how did you look at the venture itself with the idea being that if there's a breakup, you want to be able to get back some proportionate timed part of the value that you've put in? How do you measure that? One way to do it is to say that if the assumptions you came up with assume that you were going to be top four in bancassurance in this particular country, you direct the actuaries doing the valuation to develop assumptions based on published data of companies out there that were the top four bancassurance relationship ventures in a particular country.

Next is establishing value and some of the quirks. One other quick wrinkle to touch on is what happens if there's substantial nonbank value that's developed over the course of the venture. If, eight or nine years later, you went in with this joint venture partner thinking that you were going to create value through the bank, and as it turns out, there are substantial alternative distribution channels that you have developed, and if you're in a situation of being able to put only your own stake and not call, that's not comforting. You built up value, and you're only able to sell it. I've seen one arrangement, or this is one particular idea that you might employ, to address that. You tell the actuaries to appraise the value, and if the value that comes back with particular emphasis on what value is in respect to the bank distribution channel, itself not such an easy demarcation, and what value is in respect of the nonbank, if the nonbank value is higher than a certain threshold after a certain point in time, the put right flips into something of a buy/sell as a mechanism.

I'm going to finish up with a couple of comments on valuation. Camilo discussed the basics of valuation in terms of adjusted net worth, in-force business and new business. I want to comment quickly on emerging markets, in particular on the variability of assumptions, and say something about discount rates.

How do you come up with assumptions, particularly in a country where you aren't operating? You can do it through your other subsidiaries that are in relevant respects analogous. For example, perhaps Mexico is analogous to Brazil. You use comparisons to public company data and statistics, with comparable business mixes. I do work both in emerging markets and in international as well as other parts of New York Life, I can say that one thing that's most striking are the growth projections in the emerging market context. Year-over-year growth rates of 20 percent, 30 percent or 40 percent in certain years of the venture that you're modeling out are not uncommon.

Finally, I'll discuss discount rates. This is the typical method that we use and that is used in the banker community to determine discount rates. I'll talk about the cost of equity aspects as the weighted-average cost of capital (WACC) and leave aside for the moment the dead aspect. First of all, we calculate the WACC, or the cost of equity, for comparable U.S.-based companies. If this is not a developing market, if this is a developed market, you might be able to quickly look at and develop a discount rate for the developed market itself in its own industry, but in this case

there might not be enough trading information or public company data available, so we take the U.S.-comparable situation. We take the basic risk-free rate; add to it the beta of these comparable U.S. companies, which hopefully have a profile in terms of product something like what we're looking at; multiply it by however we develop the equity risk premium; add applicable adjustments, which I'm going to skip for a moment; and come back and add the sovereign risk premium, which typically is measured as the spread between the long-term U.S. dollar-based foreign bonds to the U.S. Treasury issue of similar tenor. That's supposed to measure the risk of being in the country.

Regarding adjustments, there are particular risks that aren't addressed within the comparable companies in the United States, such as the risk of selling some kinds of pension products, life products or whatever the case may be, which also aren't addressed more generally as a matter of the sovereign premium, or the gross risk of doing business in the country, which might be added in as what I call adjustments. For example, one that we've used on occasion is size premium. There might be an increase in discount rate based on a company being particularly small using the cap-end formula. Even within size premium, you have great debates about whether a $100 million market cap company in the emerging markets ought to be compared with a $100 million market cap company in the United States, or maybe it's more analogous to a billion dollar company in the United States. Even there it's as much an art as a science.

Finally, I want to touch on cash flow. What we typically do is convert local currency back into U.S. dollars because the discount rate that we've developed is a U.S. dollar-based discount rate. If we're using a financial advisor, for the first couple of years, we're probably going to rely on the financial advisors or some list of financial advisors, investment banks and macroeconomic projections about currency conversion. After the first couple of years, we're probably going to rely on some kind of purchase power as a comparison between the two currencies, and, in fact, convert back local cash flows, which are discounted cash-flow evaluations actuarially based developed into U.S. dollars, which we're discounting back at this discount rate.

To sum up, target company selection depends in large part on what you have on the ground already, what I call facts on the ground. Deal types depend in large part on what your view is of what will be distributed in a particular jurisdiction, how it is that life insurance will be distributed, how deeply it will be distributed and to whom. Many aspects of the relationship or the deal are sui generis, unique to the specific local relationship, to the specific target and to the joint venture partner if there is one. Finally, the valuation is highly sensitive to an extremely wide range of assumptions, not just revenues and expenses, but also the discount rate, the sovereign risk premium and currency conversion.

MR. HORBATT: Thank you, David. I'd like introduce Sam Coleman, who I guess is the most investment banker-type we have here.

MR. SAMUEL R. COLEMAN: This is the first time I've been to the SOA, and you may notice there's some overlap between the different presentations that you've heard. We did get together and try to organize our comments, and broadly speaking, this is more about the deal execution, where once you've selected it and thought about how to analyze it, now you get into doing the deal. In reality my perspective hopefully will be a little bit different being from the investment side. I was trying to think what would be useful as take-aways to you all who likely find yourself involved in some of these types of transactions. Based on experience, there are a couple of things that I wanted to try to get across.

Again, this is an investment perspective. What drives deals? Coleman Slide 1 is something I find interesting because it spans a period of time that roughly corresponds to my professional career, first, but the yellow line is the private pension assets in the United States as a percent of GDP. What you would find if you looked at savings deposits in the United States is there's a line that's roughly flat at somewhere between 20 percent and 30 percent. What happened in the United States in 1974 with the passage of ERISA was pension reform. You had corporations moving their pension plans off balance sheets into funded, mostly defined-contribution plans, which then started to accumulate. What you see in Latin America currently is private pension assets starting to pile up in different countries. Chile is at the head of the pack, but also Mexico, even Colombia, certainly Brazil (Argentina is in pause mode), and if you look at Asia, what you see is a high savings rate with less happening on the pension side, but it's important because what happens as these assets pile up is they have to be invested, and that drives the return-on-investment mentality.

The red line is the development of mutual funds, which you might say is a proxy. It's not additive to the assets and pensions. It's a form of ownership of the assets and pensions, so it's a form of high-velocity money. My thesis is that what drives deals and when deals start going quickly is when assets are piling up because the money has to go somewhere, so all of us as actors on the stage are somehow trying to be involved in investing those assets to their highest and best use. What you see coming underneath the line is the acceleration in debt, M&A and equity issuance.

Equity is relatively flat, as you might imagine, because this is annual issuance, so this is the money going. This is new equity being raised, so that's not per se going up. What is going up is the rate at which it's turning over through M&A and through debt, and when the market corrected in the top of the bubble, you had a decline in these assets. With the assets going down, not surprisingly M&A volume goes down. What this is driving is a perspective that we're moving money around even in an M&A environment. We're moving money from one buyer to a seller, and it's all part of a macrotrend, and in emerging markets these trends are accelerating.
What you see is on the lower right-hand side of Coleman Slide 2 is emerging markets (generally you see Peru, Colombia, Indonesia and China). This talks about

personal savings into household income, and then on the lower axis is GDP per capita. The proxy for personal savings would be insurance penetration, mortgages and other forms of consumer debt. As GDP per capita starts to increase, basically consumers start to move into this experience that David talked about. They get the house, the car and the life insurance policy. In mature countries, this starts to peak out, but in emerging markets, we're at a steep part of the experience curve, which makes an exciting place to be.

You've heard of the 30,000-foot view. Coleman Slide 3 is going even beyond this, and we're saying, "We want to do a deal. We want to buy a company, and we want to buy a company in an emerging market. It sounds like a great idea." You remember Apollo 13 and the famous line "Houston, we have a problem." The problem the astronauts had was that the rockets were broken, etc., but the more specific problem is how they get back to earth. If they come in too shallow, they bounce off and go into outer space, and if they come in too steep, they crash and burn. The key was to have the perfect approach.

The first take-away that I'm trying to get across is that people frequently make a huge mistake at this stage. They want to make an acquisition, and we've heard all these lines. People chat all the time. They talk to each other, want to buy and say things such as, "If you think about selling, let us know because we're interested." That's immediately going to take you into outer space because the easiest approach is to say, "That's great. I have someone who loves me and is interested in me," and they add it to the list of the people who have talked to them and want to buy them, and then they go about their merry way. The company is not about to say, "Yes, I'm interested," or even call you back at all.

The second approach we see all the time is the hard sell, which is, "Okay, we're ready. We've done all our homework, we're anxious, and we want to make a deal, so show us your books. We'll let you know quickly. We won't waste your time." You can imagine what the reaction is. No one wants to be thought of as so desperate that they're going to show all the numbers to anyone who comes along. The question is: How do you make an approach that's hard to refuse?

The analogy to think about is that if you were a CEO of a U.S. company, and some credible person came along and said, "My board has authorized me to make an offer to buy your company for $20 billion." The guy can't just say, "I like my job, and I don't want to sell." He has a legal obligation to bring this to his board and get a full review. That's the analogy. In emerging markets, as some of the speakers have pointed out, the CEO is probably a family member. Some family member probably started this company many generations ago, and typically the perspective that you have is of a closed book. You'll never know what the person is thinking.

But if you make a specific case to this person, according to Andronica Lutsik, a friend of the wealthiest family in Chile, "If someone makes an offer for my company, I have to talk to my brother and my sister," and then all of a sudden

everybody has a point of view, and it's the same analogy. If you're trying to make an approach, you have to be careful about who you are talking to and what their constituency is. You have to make a strong case. You have to give them nothing to say no to, give them an offer that's hard to refuse. What's the rationale? Why is it now in their best interest? You have to be specific on price, lack of conditions and your ability to move fast, so it's difficult but not impossible, and this ensures that it will get the maximum consideration. Even so, the bottom line is that it's a high-risk, high-reward strategy. Approaching someone out of the blue is going to be difficult, and there are a number of reasons.

Nobody wants to give you exclusivity if you're a buyer, and if we're advising a seller, our standard advice is to just say no. As tempting as it may be, here comes Mr. Wonderful, who's made all the right points. It sounded so convincing, so why not give him an exclusivity? It causes a loss of negotiating strength. Your negotiating strength immediately goes down from the moment you offer exclusivity, and the buyer's negotiating strength immediately goes up. If the buyer walks away, you're left with damaged goods. There's no guarantee that the price that was offered up front will be maintained. You may have no real fall-back position, and it takes a long time to go through a sequential process of checking buyers A, B and C. If you identify a company and know it has some problems, but you're willing to or you feel that you can take on those problems, it may make sense because it limits the company's exposure to multiple potential buyers and maximizes the chance that it gets something done quickly under the radar screen.

There are a number of other reasons why sellers will sometimes give you exclusivity: if you're the only buyer in town, if there's no one else around, and if they need to move fast. But in general it doesn't happen, and again this is why. Ironically, time as a buyer is not on your side, either, because the value of the target is typically decreasing from the moment that the process begins to the moment that the buyer gets its arms around it and starts to rebuild momentum. All the air goes out of the system. You try to keep it to a short list of people who know about the deal, but generally everybody is worried about the deal, not about doing business. There's a loss of value in the target itself, and there's an increase in transaction costs. There are you and the seller, and all the other buyers are loading on legal time, and there are experts and management time. All that gets built into the price, and the deal fatigue starts to set in, so the costs are going up, and the value is going down. It's not a good thing for either the buyer or the seller to take a long time with these deals.

There are other reasons why exclusivity is not common, and there are some negotiating tricks that we've all seen. If you're ever in a one-on-one negotiation situation, these are the tricks you, as the buyer, would use. Ask for unreasonable things. If you think the indemnity ought to be 20 percent of the purchase price, ask for 50 percent or 70 percent. Who knows? You might get it. People can and do use those tricks all the time. People don't always start near where they want to end up. They often start much higher or much lower, as the case may be, and people are

good at exercising those types of tricks. People will bait and switch. They'll put in a high price now and then reduce the price later. Either they'll say, "I'm sorry. I found this in due diligence," or they'll ask for representations, warranties, indemnities and escrows against everything that they can imagine.

We've all seen the hard-ball scene where people get up and walk out of the room. This is particularly common in Latin America. I don't know why, but it's a lot of fun when you sit there and say, "This is all theater. It's not happening. It doesn't matter," but it can be not fun, too. It can be stressful. But we've all seen people get up and walk away. It's not fun if you're trying to sell a company, and your buyer just walked out the door.

People engage in what we call piecemeal negotiation. You're in the preliminary stages, and they drill down on a given point. You're negotiating that point, and then it's the next point, so what might be reasonable to give on one point is not reasonable when you spread it across every single point that anyone could raise, so this can be death by 1,000 bites.

Here's my favorite one. A large industrial company with a financial services arm was famous for this because basically there was only one decisionmaker who lived in the United States, and it had armies of people who would go out and do deals. They would negotiate with you all day long, and then at night they'd call home, and the decisionmaker would say, "That's stupid. Why don't we do it this way?" You'd come back the next morning, and they'd have another idea for how the deal ought to be done. These are bad tricks if you're a seller, and the reason why (and as you'll see, the famous auction process exists) is because people misbehave if you let them, and that's not just you, me or them. It's all of us. You give us the opportunity, and we take advantage, so there need to be rules.

It's likely you've all either seen or participated in these processes. It's the classic two-step process. Many of us have been through this dozens of times, but it still exists. No one has found a better way. There's a broad solicitation and a first bid, that's a qualifying bid. If this is an insurance-related company, as Camilo and others have said, it's critical that there be this actuarial analysis as a benchmark, although you typically don't give that in the first stage. There are no hard and fast rules to this, but you typically wait until after people have qualified in the first round. You have the data room management presentations; you present a draft contract; and then you have the second bid, final negotiations and closing.

As Camilo said, every time a seller wants to sell, he wants to see this done in no more than three months, and it always takes six months. Most people, particularly buyers, hate this two-step process, but there is a reason for it. There's a method to the madness. First, it's competitive. That keeps people honest. It's also comprehensive. You can say you talked to everybody. If there's a need, as there often is, with public companies that many people are consulted, from the union employees to everybody in the world, you can make sure that there's a public

announcement that everybody is involved. There's no chance that there's a buyer somewhere that somebody forgot to contact.

This is all about protecting the seller or the decisionmakers if the board ever questions what they did and what happened. It's transparent and fair. You can document each step of the way and defend what you did. Believe it or not, this process is faster. It's certainly faster than a sequential process because you can basically go through this whole process with one person or with 10 people in about the same period of time. It almost eliminates the zero-sum negotiations, where all these tricks happen. But 20 percent of the deal value and 80 percent of the time are when you get to the representations, warranties and all the things that don't come up in the first stage.

One of the most important take-aways from this is, going back to the beginning, the velocity at which deals are getting done. Right now, in Latin America, emerging markets in general do not operate under the same glare of attention that the Organization for Economic Cooperation and Development (OECD) countries do. All that money in the OECD is turning over much faster, so deals happen. They fall apart after nine months. The seller says, "I don't think so," and it's a bunch of families, and what are you going to say? Public companies tend to make a decision and see it through.

One of the reasons, on a microlevel, that deals don't happen quicker is because there's less upfront discovery of issues. Sellers don't like to open up the dirty laundry. They don't like to expose themselves. It's a matter of pride, it's a matter of face, it's a matter of culture or it's a matter of history or patrimony. Whatever you want to call it, they're loathe to do this, and so you can go through this disclosed process, this nice, taut two-step bidding process, and come up with the buyer. You have an offering memo; you have disclosures; you have a data room; and you've had accounting, legal and actuarial analyses. Everybody has agreed on the price, and then you get into tax liabilities. What about labor liabilities? What about the fact that the accounting isn't quite the same as what we were used to? There are different legal risks and business practices that people don't understand. Then you start getting into representations and warranties. Unless you're a government, which can say, "You know what? I don't give representations and warranties," if you're a seller, you end up at this stage more or less having to cave in and look at caps, tenors and escrows. This process takes a long time, and this is where a lot of deals fail.

A cash deal is the least complex. Once you get into escrows of any size, you get more complex. If you're giving equity securities or if it's a joint venture, an earnout and last, but not least, bancassurance, which has virtually all the bells and whistles, the amount of complexity in the deal increases. You have different events that trigger everything from the governance side to events such as change of control. The two parties may come to a disagreement. There are payout mechanics: what triggers the payout, how does the payout take place, is the money held in escrow,

who does what to whom, what's the future value going to be, who's going to decide it, and what operating and side agreements are there going to be? You can add up all these things, and obviously the deal is going to take longer and be more complicated. Where there's a will there's a way to get all these things done, but obviously the more complex, the longer the deal takes and the higher the risk of deal failure.

Another take-away we want to convey is that incentives work. Even if you're a buyer, but especially if you're a seller, incentives work. This often runs contrary to culture or common practice in emerging markets. If you can identify the key man or key woman, a core team or even a broad team that's instrumental to the success of a deal and give them incentives based on the price achieved or an incentive to stick around, sometimes, such as their having to be around for six months after the closing to collect, it can be based on a formula. We find that more than 50 percent of the incentive bonus ought to be discretionary so that you can reward people who come out of the woodwork and end up being decisive. These incentives work to get transactions done. Again, for whatever reason, in emerging markets, they're relatively uncommon.

There are many curve balls that you get that are particularly true in emerging markets. Family politics is one. The tax effect on discount rates is another. What if there's a withholding tax, you're a foreign buyer, and you take dividends out of the country? That changes your discount rate. I remember the first time I valued a German company and did a discount rate analysis or Australian or maybe even South African. They said, "Wait a minute, these are frank dividends." What's a frank dividend? They don't teach you that in business school. It's already been taxed, so once you receive it, you don't get taxed again. It changes your discount rate. What about country risk? If you're bidding against someone who lives there, that person doesn't put a risk premium on the country that he lives in. Labor issues can be particularly difficult. You might have to buy out minority or public shareholders. Maybe it has to be a public offering process. What about shareholders' agreements? If you happen to deal with Sarbanes-Oxley, chances are the target company has never even heard of it, can't pronounce it and doesn't want to know about it, and you're right, they don't want to know about it, but it changes your perspective on the compliance culture within the target.

Finally, there are the local capital markets, which are increasingly becoming competitive and even dominant relative to what international bids can bring. The local bid is growing in strength in most countries.

I want to come back to this to close the loop on this long-term savings gap. If you look at the upper left of Coleman Slide 15, you see the United States. Again, pensions are 36.6 percent of GDP. If you look right below that, in Chile private pensions are already nearly 60 percent of GDP. The amount of money in this pool of assets in Chile means that if you want to buy a house in Chile, it's under 5 percent for a 30-year mortgage. The local market is strong, and that means that local

bidders have access to capital, and it's hard to bid against them. In Brazil and Mexico, the pension markets are changing more slowly, but they are starting to pile up.

Take-aways include the fact that emerging markets are indeed poised for growth. The local bidders are increasingly dominant. Time is money, so deals need to move faster, particularly in emerging markets, and preparation is the key. The single-most important take-away, both to the buyer and seller, is that deal structuring and negotiating teams can't spend too much time up front getting ready, and the kind of work that the actuaries do in a life transaction is critical because it's precisely the kind of forensic analysis needed to understand how you go from the markets to the selling process to the product to the financials, and tying that back, as Camilo, said to the financial reports. This is the key to speeding up transactions.

MR. HORBATT: Thank you. I'd like to introduce Rich de Haan.

MR. RICH de HAAN: Gary and I are going to be taking up the tail end of the talk today. We're doing a joint presentation on due diligence and closing. I'm going to take the first piece on due diligence, and cover it from an operational, actuarial and financial perspective. Gary, as a lawyer, will look at the legal aspects of due diligence. Given my history in Asia, I will be focusing on the Asian aspects. I know we heard a lot of stories from Latin America. I'm going to try to provide some of the stories from an Asian perspective, but what's interesting is that the stories that I have heard from the various other speakers this morning from a context of Latin America are similar to the stories that I will tell you from an Asian perspective.

In terms of agenda, I want to give you a quick overview of the due diligence process. We've looked at the whole deal process, but I want to give you an overview of typically what happens in due diligence and why that happens. I want to focus on some of the lessons learned based on my experience and give you some practical examples of things that we found during due diligence. If you ever come into a context where you're looking at a deal, hopefully some of these experiences or examples will trigger your thinking when you look at those. Gary will look at, as I said, the legal aspects of the examples and closing the deal.

In terms of a quick overview of due diligence, this is the way I like to view the M&A process. We spoke about all the various contexts earlier on, but essentially a company must start with a strategic intent in terms of doing an M&A bill, and as it goes through the decision-making process, there's a funnel of choice that it needs to go through. It must ask: Are we adopting the right strategies? Elisa spoke about that earlier this morning in terms of the buy, the sell, etc. Have we chosen the right country? Once we're in that country, are we looking at the right company? How do we approach the target? Have we put the right valuation on that target whether you're looking at it from an independent advisor's perspective or whether you've done the appraisal value internally? Once you get into the due diligence room, is the company worth as much as the independent actuarial advisor is saying or the

company itself is saying? When you're going through the negotiation process, are we offering the right price? There's a difference between the price that you pay and the independent actuarial appraisal that is a pure mathematical exercise.

Don't forget about the implementation of the integration. A lot of deals have lost a huge amount of value simply because the implementation plan wasn't there when they were looking at the whole deal process. I think the message is that due diligence should feature in every one of these individual slivers of decision-making. It's essential at every step of the process. I'll explain the reason. Bain conducted a study in 2002 that looked at M&A deals, although not specifically at insurance deals, all around the world and did a survey. What it found is that roughly one-third of deals, once they have been done, were successful in terms of generating a return to the acquirer. That's a relatively small percentage. But there's further detail in the study that I want to share with you. At least half of the respondents found that the due diligence process had failed to uncover major material issues, and that's an important thing. The skeletons in the closet weren't found as part of the whole due diligence process.

Some of the earlier speakers were talking about the fact that people want you to come in there and, over the period of a week, 10 days or two weeks, do your job quickly and get out so they can get on with business as normal. If you don't find in those two weeks the various aspects of the skeletons, you're going to end up buying a company that ultimately may have some material issues that you find out only once you get in there and start running the company yourself.

The other interesting aspect of the study is that only 30 percent of the respondents were satisfied with the rigor of the due diligence process, and that's in terms of their own internal understanding. When Sam was speaking, he was talking about being able to be ready immediately as soon as this deal happens, having your team together. If you suddenly have a deal that comes to you, and you don’t have dedicated people that understand the process, insurance companies and the country that you're looking at, and you scramble to put a team together, it's likely that you're not going to be able to find the various aspects of what these skeletons may be in that company.

Essentially, look at due diligence as the opportunity to kick the tires before the deal closes. You want to be able to validate certain aspects, test and verify your strategies, look at the risks that are inherent in the business and make sure that the ultimate price that you're paying reflects the various risks that you uncover within that business. Don't overpay. If you look at the way that an actuarial appraisal is put together, that essentially uses a risk discount rate that is inherently the return that you would get on that business if that's the price that you paid. If you paid the actuarial appraisal, you will get that risk discount rate as you return, assuming everything turns out the way you expected it. If you pay more than actuarial appraisals, you essentially have to generate more return within that

business to meet that hurdle rate that you priced into the deal, so it's important to realize that and not just accept the valuation that is provided to you.

I mentioned post-acquisition planning earlier on. Essentially it's the opportunity to make sure that when you're going into the due diligence process, you understand all the things that you need to put in place ultimately when you take over that company or acquire the company or joint venture with that company.

On de Haan Slide 6, I will show you a strategic due diligence process. It's a circular view of things where you take all those finals of decision-making that occurred earlier on and apply your due diligence process at each step of the way. I put little stop signs where you can walk away once you've found anything that is not to your liking. The important thing here, and again Sam put it in one of his slides, is that as time goes on, and as you look further, your costs go up. You want to make sure that you find the things that you're not happy with at an early stage in your due diligence and are prepared to walk away. Clearly, there are other incentives such as maybe getting into the market that would drive other decision-making processes, but from a pure due diligence perspective, be prepared to walk away, otherwise you'll never be able to generate or achieve the return that you originally expected.

The other thing is that this is a continuous process. There are two stages of the bid. If you're given certain information in the information memorandum, you're going to have an opportunity to go through this loop again and revisit your strategy if it turns out in the second phase of your bid when you go into the due diligence room that your understanding or perspective on that company or country has changed.

What I want to do now is go through some of these aspects in terms of looking at examples and deal dynamics, speak a little bit about advisors and look at the external data that may be available and some of the internal data. I may share with you some of the lessons that I've learned through my time in Asia.

The first thing in terms of understanding the dynamics of the deal, and I know Camilo spent a bit of time this morning talking about that, but it's probably worth reiterating, is that your local customs, conventions and practices are almost as important as getting the numbers right. Learn about and be sensitive to the local customs. An example is something as simple as handling a company's business card or the person that you're dealing with. In Asia, most people will view their business card as their person. If you take their business card and handle it as you do in America and write all over it or fold it up and put it in your pocket, that in Asian context is showing dishonor, and people will not want to deal with you in that context if you've gone through that process of defacing their business card, which ultimately is their own persona.

Beware of the different philosophies to dealmaking. I did a lot of work with Japanese companies when I was out in Asia. A lot of times they were bidding against American players, and obviously the deal philosophy between the approach

that an American company would use is different from one that a Japanese company would use. Nine times out of 10 the Japanese companies would lose out simply because they were conservative in their initial approach and that bid one process that Sam was talking about originally. Their philosophy was to put in their view of their best price, and once they had chosen that best price, no matter what happened in due diligence, that was the price they were going to pay: that, to them, was the honorable way of doing a deal.

American companies would come in, offer a huge price simply to get through round one of the bid, use the due diligence as an opportunity to kick the appraisal to pieces and make sure then that they pay the price that reflects the value that they're going to be acquiring. Recognize these deal strategies and that you need to modify some of your thinking when you're dealing with various people if they view deal strategies or deal philosophies differently.

Develop a thorough understanding of the landscape and look at why the deal is being done. Ask questions. Who are the most influential shareholders? We spoke about governments and family holdings. The whole landscape in terms of why the deal is being done will change the view that you have as to why you're going to be acquiring this company. If it's simply because the guy wants to sell the company to go and spend the rest of his life in the Mediterranean on a yacht, maybe that's not the best opportunity for you in terms of looking at the company to acquire.

Work at maintaining a relationship with the target. One of the examples I have again involves a Japanese company, but the foreign buyer came to Japan and was sending some of its less-senior executives to deal with the Japanese company. The Japanese team was presenting its CEO and most senior people, and it viewed the foreign company as not being that interested. It was sending the head of M&A, but not the CEO. "I'm the CEO, I want to deal with the CEO, and if the company doesn't show me that sign of respect, clearly it's not that interested in the deal." Bear in mind again some of the cultural differences. Make sure that you manage expectations every step of the way.

Camilo mentioned that most of the time in his developing market context, these people have never gone through a deal process before. Sometimes what they want is the comfort that you can hold their hand, that you're experienced in this and that you can help them through that process, so bear in mind that if you come in aggressively and make them feel as if they don't know what is going on, it's unlikely that you'll be able to get a deal done.

Confidentiality is different in emerging markets than you will find here in the United States, although I haven't had that much experience in the United States. Some of the experience I've had in Asia is that deals would get leaked to the press simply to get the deal done. The local people would feel that that would put additional pressure on the foreign buyer. There's a known context of this being done. It's not that confidential anymore. The local regulator now knows about everything.

Everybody is happy that the deal will get done, so confidentiality can also be an important thing.

Terminology is also different in some of these markets. One of the examples I have is the definition of new business. Again, I use Japan as a context, but I was working with a foreign buyer that went into Japan, and when it bid its initial valuation that it had done internally, it had taken the Japanese statistics, and unfortunately most of it is written in kanji, so it had gotten a translator. That translator had misrepresented what new business was and had used the sum assured as the premium when it developed its appraisal value. Clearly, you're going to end up with a different number, and that could be embarrassing, so make sure that you define what the terminology is up front, that everybody is dealing with the same numbers and data, and that everybody understands each other.

Become familiar with the local currency. Again, I would imagine in many of the Latin American countries as soon as inflation rates and exchange rates went through the roof, it was difficult to deal with these numbers that sometimes the computers couldn't even handle. There was a deal in Indonesia at the tail end of the financial crisis where the U.S. dollar went to I think 11,000:1 at one point, up from a stable base of 2,000:1. The computer systems that the insurance company had, because it had U.S.-denominated policies on its books, simply couldn't handle all the additional digits. I think they only had 10 spaces. Again, it's a simple example of how some of the things can go wrong. What it did then internally was drop off the last zero from the sum assured. That was a way of dealing with this problem. When you got a data download to do the appraisal value, you were dealing with sums assured that were only one-tenth of what sat there originally, so you need to be careful of some of these things.

You need additional time to deal with language differences. It comes back to the common understanding that you may get translators or interpreters involved. Be careful about how you hire them. I've been in many contexts where the local company will force you to use its interpreter. That clearly can be dangerous if you have to believe what the interpreter is telling you from the context of the other side. It can lead you into some trouble.

I'm not going to harp on this too long, but in the emerging markets there's a huge amount of lack of understanding and lack of data, and particularly for foreign investors that have never operated in these emerging markets, they don't have the depth of knowledge or the local understanding, so getting a local advisor that understands the context of what's going on is important. Having said that, though, be careful about becoming too reliant on a local advisor. There was an example I had in Malaysia where the local advisor had a good relationship with Bank Negar, which happens to be the local regulator, and if you've ever done business in Malaysia, you'll recognize that unless you have the local regulator on board, you can pretty much kiss anything good-bye. It will never get done. This local advisor used his power and influence with the regulator to get the deal through, but the

deal that he made with this foreign buyer was that he would have to then be retained by them for a period of 20 years, or whatever the case may be, because he had originally gotten the deal through, so he could walk away a rich man having to do nothing afterward. Be careful of becoming too reliant on the local advisor.

FROM THE FLOOR: I'm jealous.

MR. DE HAAN: They were not happy with that, at the end.

Covering some of the external investigations, when you're looking at bid one or the first phase of the bid, there's a huge amount of what I call external market data that would be available, market analysis reports that are done by the investment banks and merchant's banks, and comparative analysis. But bear in mind that at the end of the day, in most of these markets the lack of data is huge. It's a big thing that you deal with. Camilo was speaking about that earlier on: If you're trying to do an actuarial appraisal, you'll never get everything that you ask for on your request list, so someone has to deal with that.

Consider the source of the data. Similar to what we have in the United States, most insurance companies provide some form of data through the local regulatory body or some statistical body that puts data together. I found that in certain Asian countries, when these bodies provide that data, they provide erroneous data on purpose, simply so they don't look uncompetitive against their competitors in the market. If you're basing your market analysis on market data, maybe that's not the wisest thing to do. The other thing I found particularly on persistency data is that some statistical bodies or governments collect persistency data in a different format from what would be used to over here. Be careful about accepting data and assuming that the results of those data are correct.

Not all regulatory submissions are considered public knowledge, so in the United States you have your Blue Book and your various publications you put through the SEC. In a lot of the Asian countries, those data that you put through or the financial reports that you send to the government are not considered public information, so if you're trying to get access to information to do your high-level appraisal, maybe that's something that won't be possible.

Regulations are not always set in stone. The example I have again uses Malaysia as a context. In Malaysia there are foreign investment regulations that stipulate that as a foreign buyer, you can only access 30 percent of any one of the local companies. However, if you know somebody, maybe you can get in there and buy more than that 30 percent; maybe you can get up to 100 percent. There are cases where that has happened, so bear in mind that simply reading the regulations may not be the best way of going about it. There's a lack of benchmark bills against which you can compare. David was talking about that in the context of New York Life, which set the risk discount rate based on information or bidders here in the United States and then tried to translate that into some of the emerging market

countries looking at those additional risks, simply because few deals have been done in most of these markets.

Diving briefly into some of the internal investigations, which is what I call phase two of the bid, you have an opportunity to go in and kick the tires. Here are some examples. Foreign ownership restrictions can make it difficult to acquire a controlling stake. In a lot of these countries, either the local company doesn't allow it as part of its setup rules, or the regulators don't allow it, as I mentioned with Malaysia.

Beware of window dressing. Many times a deal is about to be done, and the company starts creating phantom policies or duplicates the records on its database. Things like that happen, and unless you do your due diligence correctly, you'll be paying three times for policies that don't exist when you get in and look at it.

Pay realistic assessment on the success of new channels. David spoke about bancassurance. It's a big thing particularly in the Asian markets. Companies are paying huge premiums simply to get access to an insurance company that has some form of relationship with the bank. Three or four years ago, I saw deals being done where not one policy had been sold, and they were paying hundreds of millions of dollars simply for the access to that bank. Clearly as that relationship falls away, you have nothing to go on, so be careful of those sorts of things.

Don't underestimate the influence of agency leaders. You have these unit managers and agency leaders who run the distribution. You can get context where one of those guys gets bought out by one of the competitors as soon as the deal is announced, and maybe you lose one-third of your distribution force overnight. If you've paid the appraisal that was developed independently, and half your distribution force walks away over night, clearly you're not going to have the same view on the appraisal as you would have had originally. The same thing is true with the target's talent pool. When you're dealing with countries that have few actuaries and few people who understand insurance, as soon as the deal is announced, your competitors are going to be in there asking, "Do you really want to work with this foreign company? We've heard bad things about them overseas," and force them or cherry pick them to come across to their own company.

Establish clearly what you're expected to contribute. One of the speakers was talking about bringing in management talent, new systems and your experience. Bear in mind that if you have to bring in new systems or new capital, if that's their expectation, make sure that that gets priced into the deal. When you look at an appraisal value, that won't always be taken into account, so when you're looking at your return on investment, you need to be careful about those things.

We've covered some of these aspects in terms of the corporate side, but understand who it is that you're going to be dealing with. Do investigations into their background. In a lot of these family ownership-type structures, most of those

people maybe aren't that kosher, or whatever the expression might be. You have to be careful about the track record that some of these people have. A lot of them might own two or three insurance companies as part of their whole family ownership structure. Be aware that they're trying to sell the insurance company that's the worst one in the stable.

From an actuarial perspective, probably the chief actuary is ultimately your best sort. He's the person whom you would hope would understand the insurance company best. The thing to be aware of is that in a lot of the Asian countries, the chief actuary might not be a member of the board. He might not be a party to all of the various decision-making processes that have taken place. You're going to be careful about speaking to him and finding out how things are going.

Perform an independent profit test. Most companies in Asia won't have their own internal profit-testing models. They would have done it on a computation basis when they price their products and may have no idea what the profitability is. That's where you have the benefit of a company such as Milliman or Tillinghast, whatever the case may be, coming in and doing an appraisal on their behalf, developing the profitability structures so you can form a view on what to pay.

Pay particular attention to guarantees and options. This is contextual here in the United States and in the United Kingdom. There are huge guarantees that have been offered out in the Asian market. Few of those are priced. Few of those have been reserved for. Be careful of that from an actuarial perspective.

I spoke a little bit about data, including duplicate records, phantom new business and mixes of currencies. When I was doing a deal in Indonesia, a company had captured its repair policies as U.S. dollar policies. At an exchange rate of 11,000:1, that made those policies profitable. Be careful of those things.

Perform an independent reserve review.

If possible, perform your own experience analysis. I mentioned the problems of industry statistics. Those can be manipulated, so be careful about using them. Focus on expense analysis. Few companies in Asia have ever done an expense analysis, so you have to get in there and understand it, particularly if a company may be in an expense-overrun situation. Make sure that when you're looking at the embedded value and the appraisal value, the expenses have been factored correctly into the purchase price. Beware of cause of death statistics. Culturally AIDS does not exist in Thailand. It's not something that gets reported, so if you are looking at mortality statistics on underwritten business, you may get a different view if you have AIDS mortality as part of that or excluded from the statistics.

To finish off before I hand it over to Gary, from the total perspective, beware of negative spreads. Interest rates have dropped significantly, similar to here in the United States. The valuation rate of interest would have been based on what it

originally priced the contracts at. If you had to do a realistic value of the liabilities, you'd have a different view of how solvent that company is.

Beware of nonperforming assets. If you have a huge pool of assets like most Thai companies would have that are nonperforming (they have huge real estate portfolios that are nonperforming), beware of getting a market value on those and factoring those into investment return.

Value of new business is often a large number. I think David was talking about it earlier on. It's scary when you're dealing with growth rates that are in the 20 percent and 30 percent range. When you're getting new business multipliers, they're looking at 10 or 15 times. They're different from what you'd experience here in the more developed markets.

I want to look briefly at financing arrangements. Finite reinsurance is topical in the United States, but these strategies are being used out in the Asian markets. Make sure when you're looking at the deal and kicking the tires on due diligence that you try to uncover them and understand the economics of them because the regulators would have allowed these things through and wouldn't have necessarily understood them. You would need to capture those.

That's where I want to end it up. I'll hand it over to Gary, who is going to look at the legal aspects.

MR. GARY P. TIMIN: A great deal has already been said by the speakers about due diligence in general. I've tried to reorganize my presentation to a few notes of what might be added from a legal perspective and think about what common ground there is and what matters of cooperation and proof of cooperation there ought to be in my view between lawyers, actuaries and other financial advisors in these transactions. Unfortunately, for many of our clients, something actuaries and lawyers have in common is that their outside advisors are viewed not only as a significant expense, but as a black box in the transaction, where they have a certain limited function, and the clients want to confine that function, scope, time and cost. As a consequence, lawyering often feels constrained, and there are limits on the communications we might have with other members of the team.

It's been my experience that the entire transaction and the due diligence aspects of it go better when the various advisors and the principals work closely together, communicate well together and present their work products to one another in spite of the tendency to divide and fractionalize these functions. Only somewhere inside the buyer or the seller company is the information collated and compiled, which limits the value. Much has been said today about the numerical and financial analysis and the roles of the actuary and other financial advisors in coming up with an appraisal of the company and other aspects of due diligence. Although it was only briefly touched on from my perspective as a lawyer, I would be looking to actuaries on the buying side to test the balance sheet, income statement and the

reserves, above all, of the company that might be acquired. Has the pricing of the policies been right? Are the reserves right? Has the reinsurance been taken into account appropriately, or are there significant changes or adjustments that need to be taken into account by way of pricing the deal and in the terms of the deal so that the buyer is protected against a financial statement that isn't reliable?

In those contexts I've had occasion to work with actuaries in transactions. What do these reports mean? How do these numbers work? I'm not sure that they've been asking as many questions of the lawyers, but there is an intersection that I want to come back to later. The main strength, as has been said by everybody including Rich just now, is to take an expansive view of what the due diligence process is. I think it's come to mean the entire process of collecting and evaluating information about the target company and using that in negotiating and pricing the terms and structure of the transaction and in formulating the legal documents.

The term "due diligence" is not usually used in this sense, but the same process continues even after closing because the buyer is going to be finding out and wanting to test whether the company, as represented in the contract, initially as represented in the contract at closing, has the qualities, the financial value and the financial statements that are represented. Important parts of the contract are the interactions, representations and warranties that the seller or the owners are giving and the indemnification arrangements if the buyer concludes or alleges afterward that things were not as represented and what recourse they may have.

One narrow focal point of the due diligence process is the data room. What I had provided for materials for the seminar was a partial simplified list of documents that would go into a data room, which these days is often done on a virtual electronic basis. The investment banker, the financial advisor for the seller, is supposedly responsible for collecting and making this information available. It tends to be a large pile of documents. The time the buyer has to examine it may be limited, as has been said. In my experience it's often hard to work with and never adequate.

A challenge of the information always provided is that it will be voluminous, but there will tend to be important omissions. It takes a lot of work to go through it. The simplified lists that I included as part of the seminar material are the kinds of lists that lawyers often have a role in helping the buyer compile: "These are the documents and information we want. Please provide them." When they're all piled up, there's access to them for a period of time and a process in determining whether what's been provided meets all the requests. We determine what's missing, and there tend to be follow-up rounds of requests. The documents by themselves are not adequate. There has to be an opportunity to interview the sellers, management and owners about them. This is a procedure that's been worked out in domestic transactions to the point where everybody is used to it. It's different when you're working as everybody has said in the transactional context with other countries.

When the structure of the bidding is broken down, as has been described, often an initial proposal or bid has to be submitted based just on an evaluation of the so-called data room materials. As a consequence, as one of the driving forces that leads to the subsequent negotiations that have been referred to where the buyer will seek more information and usually will present elaborate representations and warranties, which are forms of promises about what the business of the company being acquired is, what its assets are, what it's operations are, what its contracts are, and what its reinsurance arrangements are, these representations and warranties usually go about half of the acquisition agreement. They go on for tens of pages and are supported usually by elaborate disclosure schedules that tend to be compilations and summaries of things that either were or should have been in the data room. All those become promises of the sellers, and often in that phase there's a closer examination of the financial statements and of things like the reserve analysis. The evaluation of reinsurance arrangements has to be done on behalf of the buyer to test whether the basic information representations that have been provided earlier on are accurate and some adjustment to the deal price or the deal terms is justified.

The legal concept of due diligence, a term that has come to use in almost common parlance, certainly in the business world, arose out of cases holding advisors liable in transactions or the issuance of securities because courts had concluded that they had not or at least they could be liable if they did not conduct adequate due diligence. Financial advisors, investment bankers, underwriters, lawyers and accountants, but never actuaries, so far as I know, have been held to be potentially liable if they don't do enough of their homework. Those court cases originally came out of securities offerings where advisors involved in the underwriting and issuance process were held to be responsible to public investors to make sure or take reasonable steps to gain some adequate level of confidence (all vague terms) that the representations of the issuer were accurate.

One tends to think of it more on the buy side, but both practically and legally it's also true on the selling side. This analogy is expanded dramatically to be a broad term so that both sides in the transaction—the company and its advisors—are supposed to go through enough of an exercise to make sure that all these representations and warranties are being made and that other statements in the negotiation process and information exchange process are accurate. There will be in addition to specific representations and warranties in the agreement some generally phrased ones that all the information that's been provided to the buyer, whether it's in the contract or not, has been accurate and that the information taken together is comprehensive and doesn't have any material or significant omission. I don't know how often it happens outside this country, but in this country parties to transactions get sued routinely on that basis, on the allegation that representations are inaccurate or adequate due diligence has not been done.
Someone made the point that frequently transactions don't realize the value that either party hopes or that the buyer hopes, and a frequently attributed reason is that the due diligence was not successful somehow. One might wonder how this can

be when so many resources were put into the process. In my experience some of the problems are despite the length at which this whole thing draws out, at crucial stages, there are severe time constraints, and people are asked to make decisions and formulate offers and are given a limited period of time to review information, ask questions or have meetings. At the time when they want to be thorough, there are dynamics in the transactions, or the business principals are insisting that things be done quickly. As a consequence, people tend to make certain assumptions or take shortcuts.

Another main difficulty is that information is not furnished to the extent it ought to be. In domestic transactions there is now so much information that's publicly available, and the practices and mores of acquisition transactions have been so thoroughly elaborated that you might feel reasonably confident that by going through the usual steps, you're going to learn enough, and there are vast realms of public information that you can have or obtain. In transactions in other countries, it can be dramatically different. There can be little information available from governmental authorities. The habits and the business practices about disclosing confidential information, even given a confidentiality agreement, can be different, and information can be incomplete or withheld. As a consequence, it becomes a buyer's responsibility and incentive, and certainly its lawyers' and financial advisors' responsibility, to probe deeply.

Perhaps more so than the financial advisors in legal due diligence, you end up with huge stacks of papers: contracts of all kinds; distribution agreements; agency agreements, which in the United States would be considered managing general agent or third-party administrator agreements; and a large stack of reinsurance agreements that there have been previous transactions, stock issuances or debt issuances. All these heavily documented transactions or arrangements have to be read by lawyers partly to advise the buyer how things work, which may not be as written, but also to look for problems. I'm sure this is true for others in the transaction as well, but for lawyers often a large part of the value they can contribute, as long as it's welcome to one side or the other, is to identify a potential risk or some issue that may mean that values as represented, that the contracts that you are relying on could be terminated or don't have as strong exclusivity provisions as desired, or that litigation is looming beneath the surface.

The tort systems in other countries, fortunately, are not nearly as elaborate as they are in the United States. I'm sure everybody has seen in transactions that by looking at what in this country would be financial examination reports or market conduct reports of concerned supervisory authorities, by filings with or correspondence with insurance regulators or by litigation papers that have been filed and pending different cases, lawyers look critically to find out not just what's out there now, but what the risk is that potential liability will increase, whether there could be increased litigation, whether there could be new claims filed, and whether there's anything equivalent to class-action devices or just governmental enforcement actions. Often it takes ferreting out stray hints of things in documents

or in pleadings and posing aggressive questions to management to find out where there are risks that you cannot see in the balance sheet or in the records that may emerge in the months or years after closing and significantly affect the value of the company.

I'd like to speak about the indemnification arrangements that have been alluded to. In my experience, these are among the parts or sections of acquisition agreements that are most difficult and time-consuming to negotiate, often are not well-understood and have the longest, most complicated sentences. These are provisions under which after closing the seller is still on the hook, and the buyer wants the seller to be on the hook because despite all the work that's being done, no one feels sure this is going to work out. You want some kind of an insurance policy. In fact, we buy indemnification insurance for some large companies. There are different ways of structuring indemnification arrangements. It's become complicated, and there are endless variations of ways to do this, but one way or another, there's always some money held back; there's some money put aside; and there are earnout arrangements, which aren't the same but nevertheless provide protection to the buyer that if the company proves not to be as represented, or the values are not realized in a way that has been projected, the buyer will have some remedy by accessing an escrow fund, by paying less money over time than it otherwise might or, within the legal system, by suing the sellers for misrepresentation. In all of those areas, actuaries can have a role.

In closing, I would mention one transaction that exemplified a lot of these. This is not an international transaction, but one in Florida. (Some people might view Florida as an emerging market itself.) This is one where the principals and the parties to the transactions knew one another extremely well. Going into the deal, they had been dealing with each other partly through the distribution system and claims handling company (this is a workers' compensation insurer or a group of them) and through reinsurance arrangements that had been in place for years. Everything had been going on just fine, it appeared, and one particular set of actuaries that I won't name had been providing the reserve reports and the certifications to the regulators for years on end, One company that had a relatively small company (everything is a reinsurer) absorbed three direct writers and went from essentially zero direct writings to a book of business that at close annually is $350 million of premium, which is not huge in insurance but is not small either.

The parent company, the buyer, which is publicly held, infused about $90 million into its workers' compensation subsidiary to make this transaction, so that at closing it had surplus of about $120 million altogether, which was worked out in the writing ratios to support this volume of business annually. I got involved only after the fact when it appeared remarkably soon that the numbers started going south, and within 18 months of closing that transaction, the surplus of the acquiring company went from a positive $120 million on the strength of new actuary reports from outside independent actuaries who had to be approved by the state regulator to a deficit of $150 million, a result that was so dramatic that it naturally put the

company under threat of receivership. It was only when another public company came in, bought the first public company and agreed to infuse $150 million into the subsidiary closing that the deal could be accomplished.

The reason I mention this is that this is a transaction in which the parties at the time were so thoroughly familiar with each other and had been working together for years that they did not engage any outside advisors. There were neither lawyers nor new actuaries brought in to evaluate or structure that deal because they all thought they knew one another well and knew what the numbers were. I remember having to go into a room—we were retained by the acquiring company after the fact—to try to help to avert disease. I remember going into a room about this size where there were 10 to 12 representatives of the insurance regulator, including several inside and several outside counsel, and their question was: Who are the lawyers on this deal? And the answer was "nobody." There were no independent actuaries, either. That was one deal, the only one I'm aware of and personally involved in, where the former actuaries were sued, basically alleging that their loss evaluations or reports were dramatically inadequate.

That case was finally settled for far too little, but I learned through that process that it has been rare indeed for actuaries to be sued unlike investment bankers, accountants and lawyers. Somehow you all are doing it right. Regarding the emphasis that was being placed at yesterday morning's session about improving the image of the profession and the role of the profession, be careful what you ask for. If you are looking to become crucial decisionmakers in acquisition transactions, you also expose yourself to liability when transactions go bad, and so you may encounter lawyers across the table in the wrong way.

MR. HORBATT: Thank you, Gary. Please feel free to ask questions.

FROM THE FLOOR: I am curious as to whether there is any tendency for the company to prefer to deal with the local players or the foreign player in transactions or whether they look at the price only.

MR. HORBATT: I believe your question is: What is the preference for a company that is selling? Would it prefer to deal with a local buyer or a foreign buyer?

UNIDENFITIED SPEAKER: Here are a couple of aspects of the answer from my perspective. First, the sellers might be different from the company managers, so the sellers are normally interested in the top value. I think a big foreign buyer is the most welcome presence in a transaction, if only to get the local buyer to pay more. There may be a sentimental favorite, such as the home team, but if you're a seller and have an aggressive, large, foreign buyer, that makes you happy, I think. The foreign buyer's bringing technology, superior management know-how or capital are all diminishing in importance, at least in my opinion, and I think the large, local bidders are becoming more effective in all three of those areas: management, technology and capital.

UNIDENTIFIED SPEAKER: I'll add a bit to that. Once in a while you'll see a situation where a foreign buyer is preferred because of some kind of internal competition within the country itself, so if you take a particular kind of distribution in Brazil, a local seller might be less inclined to open up its own particular competency, distribution, for example, to another local entity, and you can see that perfectly in the bancassurance example, where the bancassurance channel itself is going to be given only to someone who can't raid the seller's own distribution channel, so particular structural features may affect the preference for a nonlocal.

MR. HORBATT: Let me make one quick plug for the SOA International Experience Survey. We've been trying to develop better statistics in emerging markets such as Brazil and Poland. In the July issue of *International News*, we published our second survey of embedded-value economic assumptions by country, where we've taken it from published reports. We are also developing an access tool that local actuaries will be able to use to produce both mortality and persistency studies. We have initiatives in both Brazil and Poland that will be able to use that. Please look at *International News* and see what we're doing. We're always looking for more companies to contribute data.