Should YOU GO Global?

Resource discusses globalization, with an exclusive look at the experience of New York Life International.

By Jennifer C. Rankin

It's fashionable to be a patriot these days. Compelled by the recent terrorist attacks on America, centuries-old conflict in the Middle East, and nervousness about North Korea's nuclear capabilities, ordinary people around the world are supporting—and protesting—their country's stand on these and other seemingly intractable problems. Nationalism is on the rise and the symbol of choice is the country flag.

Even the most ardent nationalist, however, can not ignore the fact that globalization is an increasingly powerful force in world affairs, especially in commerce. Some argue it's the glue that holds us all together, despite sociopolitical boundaries and differences—a rising tide that will lift all boats. Others say it's a sinister force that undermines culture, the ability to earn a living wage, and more.

Just what is globalization? For starters, it's not a new phenomenon. "Throughout history, adventurers, generals, merchants, and financiers have constructed an ever more global economy," reads an e-briefing from the Global Policy Forum, a New York-based nonprofit that tracks global policy issues. During the past 20 years, however, the movement has grown in intensity, scope and visibility as a public issue.

Herman E. Daly, a Global Policy Forum analyst, takes the definition a step further, characterizing globalization as the "global integration of many formerly national economies into one global economy, mainly by free trade and free capital mobility, but also by easy or uncontrolled migration. It is the effective erasure of national boundaries for economic purposes." Globalization is not internationalization. According to Daly, globalization serves the vision of a single, cosmopolitan, integrated, global economy, while internationalization is a federation of nations cooperating as sovereign units to advance the national interests of all members.

Globalists and anti-globalists have very real philosophical differences (see *Who's Right?*).

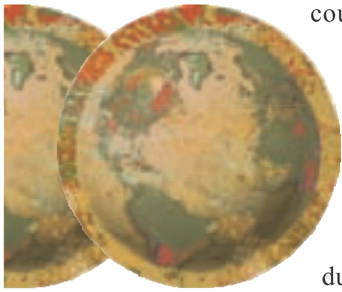
Let's start with the anti-globalists, who are easy to spoof. Type the phrase anti-globalization in any search engine and you'll be privy to all sorts of conspiracy theories, Marxist rhetoric, and protest plans. Broadcast news coverage of protesters at WTO, G8 and other pro-global meetings shows a mélange of Goths, flower children and factory workers. Bandana chic is the order of the day and Woody Guthrie is lurking in the shadows.

To snicker, however, would be to miss the point. Those opposed to globalization have sincere concerns. They worry about the effect globalization—more precisely, corporate globalization in the form of capitalism—has on the environment (degradation), public resources (privatization), labor (suppressed wages), and culture (homogenization). Most of all they worry that old-fashioned character will be commodified—that is, that a global dollar value will replace national values.

The globalists, of course, have a different point of view. Type the phrase globalization in any search engine and you'll be coached on direct marketing opportunities in impoverished countries, executive speeches on how selling sneakers will transform emerging economies, and B-school courses on taking on the world. Because they don't protest in the streets, there's not much TV news coverage of these folks; if they are interviewed, it is mostly by the business press.

Globalists believe that capitalism rules—or at least that it should rule. Why? Because capitalism lends a helping hand in the form of goods and services, jobs, and infrastructure expertise. It's awfully nice to have food, running water, electricity, and vaccines, all of which capitalism provides. So do other political systems, but they have proven difficult to sustain without either huge cash infusions or big armies.

When globalists and anti-globalists take to the podium, posturing and dogma often take the place of thoughtful debate. There seems to be no middle ground. There is, of course, and that's precisely where most global corporations maneuver as they try to make a profit and do some good at the same time. And financial services companies—especially insurers—are uniquely qualified to do just that.



History has shown that insurance is the cornerstone of a country's financial health and progress as well as its citizens' ability to provide for their own and their families' futures. Although the industry has had its fair share of problems with suitability, churning, and discrimination, insurers are a respected source of financial advice and financial security. That's a good thing, especially in developing countries, where insurance often is the first step toward both national and individual financial stability.

Measuring Globalization

Just how global are we? In a word, exceedingly, according to an array of economic, demographic, technological, and cultural measures.

One such measure is the value of cross-border mergers (see *Worldwide Mergers & Acquisitions*). According to the World Watch Institute, US$ 6.1 billion worth of cross-border mergers occurred in 1980. Twenty years later, US$ 1,136.5 billion took place.

In their third annual globalization index, the results of which were released earlier this year, *Foreign Policy* and A.T. Kearney report that "levels of integration continued to climb in the wake of the September 11 terrorist attacks and prolonged global economic slowdown, albeit at a much slower pace than in previous years." While economic integration declined, growth in political, social and technological connections more than offset the difference. Indicators of personal connections across borders—such as international telephone traffic and Internet use—grew steadily, suggesting that globalization is alive and well.

Let's take a closer look at the decline in economic integration. According to the index—which measures economic, social, political and technological integration in 62 countries representing 85 percent of the world's population and more than 95 percent of world economic output—"world economic growth plummeted from four percent in 2000 to 1.3 percent in 2001. Trade levels declined by 1.5 percent, and global foreign direct investment flows dropped more than 50 percent from US$ 1.49 trillion to US$ 735 billion, exacerbating trends begun before the terrorist attacks."

Despite these setbacks, globalization is not only a *fait accompli*, but also poised for a comeback as the global economy recovers. As always, multinational corporations will play a vital role. "The globalization of companies plays a large role in the globalization of economies. Shipments inside multinational firms make up huge shares of international trade—accounting for 47 percent of total imports to the United States, for instance. For globalizing countries, this suggests that attracting foreign affiliates of global companies is key to greater participation in the global economy."

Despite the highly publicized financial woes of Zurich Financial Services and other European multinationals, global acquisitions and alliances are stronger than ever. Many factors are driving this cross-border activity.

First of all, many countries are moving away from protectionism and state control and taking a more market-driven approach, especially in the insurance and financial services sector.

Worldwide Mergers & Acquisitions

(US$ billions)

Year	All Mergers	Cross-Border Mergers (CBMs)	CBMs as a Percentage of Total
1980	33.1	6.1	18
1985	352.3	32.0	9
1990	558.6	214.3	38
1995	1,034.6	255.2	25
2000	3,419.8	1,136.5	33
2001	1,680.7	597.1	36

Source: World Watch Institute

They are regulating and deregulating insurance to encourage a stable, properly managed, and thriving industry; privatizing state-owned companies; and opening up their markets to foreign companies.

Another reason we're seeing a big increase in the number of multinational insurers is demographics. Many previously volatile economies are settling down and as a result a new middle class is emerging in countries around the world. Many of these countries place great importance on family values. When you can earn a decent living—and when you place a high priority on taking care of family—you save money and buy insurance. Also, a significant proportion of the population in these emerging markets is aging, which presents additional opportunities for insurers.

A third factor is the new challenges many insurers face in their local markets. One of these is non-traditional competitors. In mature markets such as Europe, Canada, and the United States, these include banks; non-financial companies like entertainment conglomerates and department stores; financial retail centers; direct insurers; the Internet; and well-capitalized foreign companies on buying sprees. Mature markets also are coping with market saturation—both real and perceived—and with stricter sales practices regulation.

Which markets are emerging as a result of these factors and who is taking advantage of them?

According to Swiss Re, Asia, Latin America and Eastern Europe are among the most attractive growth markets in insurance. Its analysts predict that life and health insurance premium volume in these markets will grow 10 percent annually between now and the year 2005, citing strong economic growth, the rapid aging of the populations, and social security system reforms as reasons.

Who are the multinationals? Europe produced the first transnational financial services and insurance companies, which include AEGON, AGF, Allianz, AXA, Generali, ING Groep, Mapfre, Prudential plc, Skandia, Royal Sun Alliance, and Zurich Financial Services.

The North Americans, however, are gaining ground, including Aetna, AIG, CIGNA, John Hancock, Manulife Financial, MetLife, New York Life, Principal Financial, Prudential, and Sun Life
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New York Life International

Why does an insurer decide to go global? For the answer to this and several other questions, *Resource* asked Gary G. Benanav, chairman and CEO of New York Life International, to share his perspective.

A Fortune 100 company, New York Life is the largest mutual life insurance company in the U.S. and one of the largest life insurers in the world. Founded in 1845 and headquartered in New York City, the company and its affiliates offer life insurance, annuities and long-term care insurance. New York Life Investment Management, LLC, a New York Life affiliate, provides institutional asset management, retirement plan and trust services. Other New York Life affiliates provide an array of securities products and services such as institutional and retail mutual funds, including 401(k) products. The company's distribution channels are career agents (insurance products) and registered representatives (mutual funds). New York Life prides itself on—and is internationally acclaimed for—its integrity, financial strength, highly trained and responsive agents, community service, and commitment to the mutual form of ownership.

New York Life is truly a global life insurance company. The company first moved into the international marketplace in 1870. At that time it appointed Harry S. Homans as general agent with offices in London and Paris to develop the European markets. In April 1884, Seton Lindsay was appointed to develop the East, including China, India and the adjacent islands. By 1899, New York Life, with US$ 1 billion of insurance in-force, had operations in 83 countries.

By 1905, the company had a worldwide agency force of 8,000 men and women who operated out of 208 branch offices. However, foreign operations were interrupted by the onslaught of World War I, at which time New York Life decided to withdraw from all overseas markets.

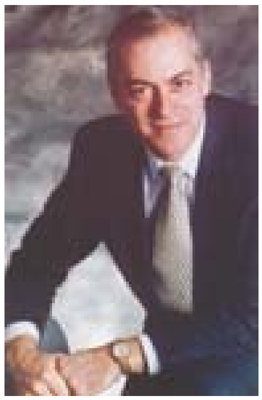
It reentered the global arena in 1988 with the acquisition of a life insurance company in Hong Kong. Since then, it has established operations in Argentina, China, India, Mexico, the Philippines, South Korea, Taiwan and Thailand through New York Life International, its overseas arm, as well as a representative office in Hanoi, Vietnam (see *A Global Leader*). New York Life International offers life insurance and asset accumulation products and services to individuals and groups in selected emerging markets through subsidiaries, joint ventures and affiliates. International revenue has reached US$ 1.4 billion. New York Life's international business now represents more than 25 percent of its total life insurance sales.

Going global is not for the faint-hearted.

Benanav joined New York Life in 1996, where he not only heads up New York Life International, but also serves as vice chairman of

New York Life and as a member of its board of directors and executive management committee.

During the previous 24 years, Benanav held positions of increasing responsibility at Aetna. In 1972, he joined Aetna's law department. From 1975 to 1986, he served as vice president and investment counsel and was Aetna's senior financial, acquisition and divestiture lawyer. In 1986, he was promoted to vice president of finance and treasurer and was responsible for the management of Aetna's banking, corporate finance, domestic and international treasury and short-term investment activities. In 1989, he was appointed president of Aetna International, Inc., responsible for Aetna's insurance and financial services businesses outside the U.S. In 1992, he was promoted to group executive, with additional responsibility for Aetna's domestic life insurance and asset accumulation businesses. In 1994, he became the CEO of Aetna's property/casualty operations. Before joining Aetna, he was associated with the New York law firm Shea & Gould.



GARY BENANAV, chairman and CEO of New York Life International. *Benanav has been instrumental in the success of New York Life International's globalization initiative.*

Benanav also is very involved in civic, business, and international affairs. He lectures frequently at business seminars on various financial topics, chairs the Pacific Basin Economic Council-U.S., and serves as one of the U.S. representatives to the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council (ABAC). He earned his MBA at the Columbia University Graduate School of Business and his JD at Columbia Law School.

So where is Benanav taking New York Life International and why?

"Despite New York Life's phenomenal 40 percent growth over each of the past three years," says Benanav, "we knew that the long-term trend for the U.S. life insurance market would be slower growth. Several years ago, when the board of directors was assessing the company's long-term strategy, it rejected the idea of seeking growth through massive diversification; to us, the logic of the financial services supermarket was not compelling. Instead, our board decided to seek growth through exporting our core competency, life insurance, to attractive developing markets internationally. Incidentally, we also decided to make a concerted effort to expand into some very attractive developing markets in the U.S.: the rapidly growing ethnic markets. New York Life is now the leader in the U.S.-Chinese and U.S.-Indian markets and is doing very well amongst Korean-Americans, Vietnamese-Americans, and Hispanics."

How does New York Life decide which markets to enter? "Well, while I'm not going to divulge the criteria we use to assess a market, let me say that we use a combination of outside experts and our own staff," says Benanav. "We have excellent in-house teams, both in New York and in our Asia regional headquarters in Hong Kong, who are very skilled in seeking out opportunities for New York Life. One of the benefits of having an experienced, diverse staff representing many nations is the vast local knowledge these people can bring to an organization like New York Life. This first-hand, intimate knowledge is impossible to get simply by visiting a country. New York Life also often establishes representative offices in a market like the one we currently have in Vietnam. This allows us to build relationships and closely observe the market before opening for business there.

"New York Life is looking for attractive emerging markets—generally those with a growing middle class and relatively stable political and economic environments—into which we can bring our core life insurance expertise.

"We primarily target middle-class individuals with traditional life insurance products built around providing long-term financial protection but we also look at the realities of each individual market and allow our local management to seek a product and distribution mix that makes sense for local conditions.

"We may not be in as many international markets as some of our competitors, but wherever we operate we are committed to having the best agents and employees in the local life insurance market. If this means we expand more slowly into new markets, that's fine with me. New York Life in the U.S. has become one of the most respected, trusted brands in the country and it did this by providing excellent products sold and serviced by the best-trained, most professional agents in the business. This philosophy has served New York Life well for the past 158 years in the U.S. and we have no intention of changing that philosophy outside the United States."

On the organizational front, New York Life has a very flat organization at its home office in New York and, by extension, in its Hong Kong regional office. "We like to keep the operational

A Global Leader

New York Life International is involved in 11 companies:

- HSBC New York Life (Argentina, joint venture)
- Maxima (Argentina, joint venture)
- HSBC Salud (Argentina, joint venture)
- Seguros Monterrey New York Life (Mexico, acquisition)
- Haier New York Life (China, joint venture)
- New York Life Insurance Worldwide, Ltd. (Hong Kong, greenfield)
- Max New York Life (India, joint venture)
- New York Life Insurance (Philippines) (Philippines, greenfield)
- New York Life Insurance Ltd. (South Korea, originally a joint venture, now wholly-owned)
- New York Life Insurance Taiwan Corp. (Taiwan, greenfield)
- Siam Commercial New York Life (Thailand, stake purchase)

The company also maintains a representative office in Hanoi, Vietnam.

Source: New York Life

decision-making as close to the markets as possible," says Benanav. "This means giving a lot of latitude to our individual country managers who live in the markets day-to-day. Some of these managers are expatriates, but some are citizens of the countries in which we operate. And, in almost every instance, even where we have an expatriate manager, his (or her) senior management team comes from the local operation and are nationals of the country with a strong understanding of how to market in their own country. The role of the New York and Hong Kong corporate offices is three-pronged: to set policies and procedures, to monitor, and to mentor. The rest is left to the managers in the local operations."

What about global branding? "While we do advertise and market the company in traditional ways in each of our markets," says Benanav, "the most effective of New York Life's brand-building revolves around our local agents. These agents are New York Life's brand ambassadors, living the company's values and providing direct, tangible service to their communities. The agents are the face of New York Life in each and every community in the markets where we operate so it is logical that they would be our most effective marketing assets. And our agents are very well respected in the local markets.

"We've brought to our international markets the same training programs we've used to build the best agency force in the U.S. so we know that New York Life agents in international markets are the best trained, most productive agents in each of the local markets, too. This year New York Life also launched television ads regionally in Asia and Latin America in an effort to tell viewers about the company's long heritage and timeless values. We believe that this new pan-regional brand advertising will complement our existing local marketing efforts."

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Unique Challenges

When an insurer goes global, it faces many challenges. These include entry barriers, public relations problems, accounting issues, corporate governance differences, increasing competition, and finding talent.

"Going global is not for the faint-hearted," says Benanav. "You can't just throw a hundred million dollars to plant the company flag in a few international capitals and call yourself a global insurer. The barriers to entry are very high: the investment is significant, the risks are great, and the return will take many, many years. But when it does come, the returns will be significant.

"The developing markets of Asia and Latin America are seeing a huge increase in the middle class and this middle class is looking for ways to protect their newfound prosperity for future generations. Companies like New York Life who have a long-term view of things are well-positioned to meet the needs of this growing global middle class."

Public relations is a big issue for transnational companies. In troubled times like these, they are easy targets. While each must craft its own counter-strategy to protests and bad press, companies that make a genuine commitment to executive integrity, customer care, transparent products, ethical sales practices, financial soundness, corporate citizenship, and other old-fashioned values will not find the journey too difficult.

Many transnational insurers embrace these values, especially good corporate citizenship. Since good news often doesn't make the evening news, their work goes largely unnoticed. New York Life is one of the world's most generous companies.

One of its stated core values is compassion. In fact, its charitable contributions date back to 1853, when the

Vietnam's Deputy Prime Minister **Mr. Vu Khoan** *(left) meets with* **Gary Benanav** *(right), chairman and CEO of New York Life International.*

company helped victims of a yellow fever outbreak in New Orleans. Since then, New York Life has distinguished itself by responding in times of crisis, helping to build stronger, more vibrant communities and contributing resources to address emerging social issues. In 1951, the company established the first formal contributions budget. In 1979, the New York Life Foundation—the primary vehicle through which the company supports charitable causes—was established. Since then, the Foundation has donated more than US$ 68 million to national and local nonprofit

organizations. In 2000, the Foundation implemented its Nurturing the Children initiative, which focuses on childhood education. By the end of 2001, commitments to the initiative totaled more than US$ 10 million.

In 1998, New York Life created Volunteers for LIFE, a program that develops and promotes volunteer opportunities for its agents, employees and retirees. The synergy between volunteerism and Foundation grants enables the company to make the greatest impact possible when the company receives a call for help.

New York Life's generosity is not limited to the U.S. "From a business perspective, emerging markets offer tremendous growth potential," says Benanav. "But our presence in these countries involves more than just business opportunities. At home and abroad, New York Life's sense of corporate citizenship knows no borders or boundaries."

When a devastating earthquake struck India's Gujarat province in early 2001, local agents and employees from the company's Indian joint venture, Max New York Life, were on hand within 24 hours to set up tents and assist with rescue efforts. The Foundation and New York Life International provided substantial direct financial assistance, and the Foundation matched relief donations made by domestic agents and employees. Over the years, New York Life International and its subsidiaries and affiliates have responded with similar speed and generosity to communities devastated by natural disasters in Mexico, Taiwan, Indonesia and China. In addition to helping out in times of extreme need, New York Life International supports the Nurturing the Children focus through ongoing programs in a number of countries in which it operates. More recently, New York Life has lent a helping hand in Vietnam (see our *World Report* in this issue).

Another important issue for transnational insurers is accounting. "The major challenge," says Benanav, "is that not all countries employ generally accepted accounting principles (GAAP) along the lines of those valid in the U.S. or developed economies. The international accounting standards board (IASB) is an attempt to move forward to a set of accounting standards that reduces the differences between local practices and GAAP. Statutory accounting principles also vary significantly from country to country, so global companies like New York Life have to engage in efforts to harmonize different statutory practices into one single consolidated financial reporting system.

"For publicly held corporations, the recently passed Sarbanes-Oxley Act also adds some degree of managerial complexity as it calls for all subsidiaries to have clear processes to assure that financial reports are reviewed and approved properly by the local senior financial officers. This process involves, in most cases, educating local staff to comply with SarbOx requirements. Last but not least, global companies that do business in countries through joint ventures also have to solve the issue of consolidating financial accounting for their own share of the business; this might seem to be a small issue but it certainly requires additional financial attentiveness."

Multinational insurers also face corporate governance issues. "Companies like New York Life that operate globally sometimes operate in countries that are just liberating their local industries," says Benanav. "This often means foreign ownership is regulated, often requiring foreign companies to create local joint ventures with national groups.

"This always adds some degree of complexity. Cultural differences and local business practices might differ—in some cases, significantly—from those generally accepted in more developed economies. So, global companies need to put in the extra effort to seek and agree upon shared corporate gover-

Who's Right?

Globalists and anti-globalists have major philosophical differences.

Proponents say globalization:

- Brings money, expertise, and jobs to underdeveloped countries
- Diminishes incentives for conflict between nations
- Creates wealth
- Benefits people at all socioeconomic levels
- Helps eliminate child labor
- Supports accountable, democratic government and the rule of law

Opponents say globalization:

- Privatizes what should be public resources
- Eliminates jobs
- Causes a "race to the bottom" in environmental and labor standards
- Homogenizes culture
- Rewards the rich at the expense of the poor
- Commodifies old-fashioned values

The truth, of course, lies somewhere in between—territory transnational corporations are navigating as they try to make a profit and do some good at the same time.

nance principles for the joint venture that also adheres to the demands of the foreign company's own internal governance requirements.”

Increasing competition is another challenge for the multinationals. Europe's financial conglomerates are major global competitors. They have deep global roots—and pockets—and typically offer not only insurance products and services, but also banking and brokering. Is it getting easier now that U.S. multinationals are gaining experience and so many European multinationals are floundering?

“I wouldn't say the European multinationals are floundering,” says Benanav. “Recent economic trends—particularly the fall in equity values—have hurt them in the short term, I'll agree, but these are large, well-managed companies. In fact, they'll likely come out of this period even stronger, in some ways. The leading four or five European companies are fierce competitors, but remember, we face these companies head-to-head in almost every market in which we operate, including the U.S., where, I'd like to remind you, we are the leader in new life insurance sales according to the latest LIMRA figures. So, we're not afraid of our European colleagues and, in fact, we welcome their competition.”

Do you have to offer the full array of financial services/products to compete or can you compete as just an insurer?

“As you know,” says Benanav, “New York Life follows a slightly different business model than many of our competitors—we focus on our core strength, developing and selling life insurance. In some markets we are active in related areas such as pensions or even health insurance, but our core focus everywhere we operate is in life insurance. We do not believe we have to become a financial services supermarket in order to compete. In Mexico, for instance, Seguros Monterrey New York Life is continuing to present itself as the only life insurance specialist in a market full of conglomerates and this strategy is working well for us. We're growing much faster than the market and we've quickly become the leading seller of individual life insurance in Mexico.”

Staffing is another challenge for the transnational insurer. “The biggest single challenge [we face] is finding enough talented people to rise to the challenge of international business which, as you can imagine, with time zones and extensive travel, is a 24-hour vocation,” says Benanav. “At New York Life we are constantly on the look-out for people who can meet this calling. Actually, one benefit of our international expansion has been the amount of talent we've found in our non-U.S. markets. We're actively developing these global managers and moving them around to other markets, including the U.S.”

Has globalization helped or hurt the insurance industry?

Global Impact

Has globalization helped or hurt the insurance industry? “Globalization has provided a host of benefits for the life insurance industry,” says Benanav. “Over the years we've seen a dramatic increase in professionalism throughout the industry as companies apply best practices developed by innovators in one market to other markets around the world. This also applies to the regulatory environment as regulators share their expertise across borders, creating a more uniform regulatory environment that ultimately benefits both consumers and the industry as a whole. Another area in which globalization has helped the life insurance industry is by allowing the freer flow of managerial talent across borders. Companies like New York Life are moving smart managers from one market to another, wherever their talents may be needed in the organization. This helps broaden the horizons not only of each company but also of the entire industry itself.

“It is difficult for me to cite many instances in which an increased global exchange of capital, products, and expertise has in any way hurt the life insurance industry. Perhaps the most damaging type of action we have seen occurred when an insurer wished to enter new foreign markets and paid far too high a price to buy all or a portion of an existing insurer in that market, or paid ridiculous sign-on bonuses to attract experienced agents away from established companies. When the insurer discovers the error of their ways, they either take a big write-down or withdraw from the market and hurt the reputations of all foreign companies operating in that market.”

What effect does globalization have on local-national insurers in emerging markets? Benanav believes it's positive: “When foreign insurers like New York Life enter a market that had formerly been closed, they bring with them world-class product development and marketing standards that significantly raise the awareness of consumers. This heightened awareness helps educate consumers to the benefits of life insurance, increasing demand throughout the market, benefiting foreign and domestic insurers alike.

“I'll give you an example. Before Taiwan opened its insurance market to foreign competition in the 1980s, life insurance premiums accounted for less than one percent of Taiwan's GDP, with local players enjoying 100 percent of the market. Today, after more than a decade of foreign participation, Taiwan's life insurance market is one of the most vibrant anywhere, accounting for about four percent of GDP and, on top of that, Taiwan's overall GDP has more than doubled from 1987 to the end of 2002. The foreign companies grew tremendously during this period, that's true. But so did the domestic companies who are now larger and more profitable than before and, by the way, still dominate the Taiwanese life insurance market. I think it is interesting to note that some of these Taiwanese companies, who once vehemently opposed opening their market to foreign competition, are now themselves establishing operations in other countries in Asia.”

If it once was enough to cultivate business only in your own backyard, that's no longer the case. For starters, opportunities well worth exploring are emerging in markets as diverse as Poland and Vietnam. Even if you have no intention of establishing a global presence, you must be prepared to compete successfully with those who do, because you can be certain they are assessing the potential of your corner of the world. Like New York Life, you may just have what it takes to succeed on both the home front and in the international arena. ❑