Opening Markets in a Turbulent World

Maurice R. Greenberg

American International Group (AIG) has always been at the forefront of opening markets. AIG was born in China in 1919 and has since expanded into every part of the world. Time after time, AIG was the first company to identify opportunities in new markets and the first to introduce new products around the world. AIG companies were the first foreign insurance companies to enter Japan, South Korea, and many Southeast Asian countries. Our joint ventures in Central and Eastern Europe were the first of their kind in those markets. We were the first American insurers in many Middle Eastern countries. Beginning during World War II, AIG established a strong presence in Latin America, which had been traditionally dominated by European companies. We have introduced literally hundreds of new products to markets around the world that have been replicated by other domestic and foreign companies. Innovation is a way of life for us and we have always seen opportunity in markets that were too remote or too foreign for our competition.

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AIG is in the service business, but it was not until the Uruguay Round of the GATT negotiations that services were even considered by the World Trade Organization (WTO). I was serving at the time on the President's Advisory Committee on Trade Negotiations, and Bob Strauss was the U.S. Trade Representative. When we raised the topic of services, it was considered very strange since all previous trade negotiations had focused on tangible goods, things that you could touch and see. Although trade in services was first raised in the early days of the Uruguay Round, it did not get anywhere during those negotiations.

Prior to the Uruguay Round, AIG took the lead in creating the Coalition of Service Industries—a group of U.S.-based service companies, including American Express and Citigroup among others—to help lobby for trade in services to be negotiated. Today, trade in services is part of all trade negotiations, American service industries now have better access to foreign markets and enjoy protection in those foreign markets—and U.S. foreign policy has been furthered as a consequence.

Characteristics of a Leading Edge Company. What kind of characteristics are necessary for a company that wants to be at the leading edge of opening markets? There are several things we at AIG have learned over the years that I think have helped us open markets and made us a leader in emerging markets. These five rules may be simple, but they are fundamental.

First, you must know what you want to do. Too many companies—even American ones—just have a "me too" strategy. For example, if AIG is in a country, they think they should be there, too. They may not have developed their own strategy to ensure success in that market.

Second, you have to have a long term view. You cannot go into a country for a short period of time. When companies do that, it causes tremendous problems. They go in, upset the local market, do not succeed, pack up, and leave. This does not go over well.

Third, you have to understand the culture of the country. Each country has a different culture, and you must respect that. All Asian countries are not the same, for example. Too many American companies fail to understand that, and pay the price for it.

Fourth, you have to be persistent. It takes a long time to open a market, and you have to create and develop relationships in a country to do so. Too many companies just don't follow that practice.

Finally, you have to have the CEO out front. In many countries, their leaders do not want to talk to the second or third person in the company. They want to talk to the leader. It takes a lot of time and commitment to do that, and if you fail to do this, in most cases you will not succeed.

China. I first went to China in 1975, soon after President Nixon made his historic trip. I believed that one day China would join the world of open markets because 1.3 billion people cannot exist in isolation for long, and you cannot have a truly global trading system if China is not part of it. At some point, it had to change.

In the insurance sector, China had only one company, the state-owned People's Insurance Company of China (PICC). They were obviously not interested in competition, and posed a formidable barrier to our entry. When I first met with PICC in 1975, it was tiny. There were probably only about 200 people in the whole insurance industry in China. There was no need to insure anything because everything was government owned. But, as a result of that visit, we entered into a reinsurance arrangement with PICC. It was more symbolic than real, but it was a beginning.

I made annual visits for several years, and in 1979 we created a joint venture called The China-America Insurance Company to insure trade between our two countries. At that time, it was the first venture of its kind. This modest beginning led to the development of relationships with deputy prime ministers and State Council members, and soon this joint venture became a very important symbol to them as well. By the mid-1980s, we opened an infrastructure fund in Chian, which quickly became a business in its own right, and began the first major real estate project in Shanghai with the support of Zhu Rongji, then mayor of Shanghai.

After that, on all my trips to China, I stopped in Shanghai and met with him on one thing or another. On one of the trips he asked me if I would help create an International Business Advisory Council for Shanghai (IBLAC). I didn't think it was possible to create what he had in mind, but I helped recruit CEOs from other companies around the world and chaired the first two meetings. Virtually every ministry in Beijing sent people to attend the meetings and listen to the advice that the Advisory Board offered Shanghai in its attempt to become a more modern city. Today, the IBLAC is a very important part of Shanghai's infrastructure, and I remain a member.

During that time, I kept pressing Zhu for a license to allow the sale of insurance in Shanghai. Although he finally agreed to try for permission, PICC blocked the license.

Soon after that, Zhu became Deputy Prime Minister, and his advice was, "You have to convince everybody on the State Council. You have to talk to President Jiang Zemin and Li Peng," who was then Premier. Despite meeting with every member of the State Council and receiving the support of the Chinese ambassadors to both the United States and the UN, Li Peng was very difficult to see. Moreover, he did not even want to discuss the issue. No other foreign insurance company was even paying attention to China at the time, and no one thought there was a chance to get a license in China. But we persisted, and did everything we could possibly do to improve our relationships in China. For example, we purchased a set of window frames that had found their way to a Paris gallery after having been stolen from the Empress Dowager Pavilion in the Summer Palace during the Boxer Rebellion. We thought that it would be a very nice gesture if we could return them to China, so we had them authenticated by Chinese experts and then had them sent home. We did all kinds of things to convince the Chinese leadership that we were committed to China.

It is a more difficult world in which to do business today than at any time I can recall.

When I was finally offered a hearing with Li Pen, I was in Europe, he was going to be in New York, and I was told that I could have just ten minutes with him. Although I was hesitant about the usefulness of a ten minute meeting, I decided to fly back to New York. The meeting lasted an hour and twenty-five minutes, and in addition to marketing our proposal, I assured him that AIG would not take out our dividends for at least ten years if granted a license. When I saw him in China two months later, the first thing he said was, "I just approved your license." That was 1992; it had taken some seventeen years since my first visit to China to get our first insurance license. To us, it was worth the wait because we thought China was a very important market to open.

Since then, there have been many more successes and disappointments, ups and downs, but, over the long term, the efforts have paid off. Today, we are a major force in the insurance industry in China. The Chinese have learned a great deal from us and we welcome that. For example, all Chinese insurance agents have to take a test, as they should. For our agents, the pass rate is between 85 percent and 90 percent; for the industry in China it is probably between 35 percent and 40 percent. Because we train our people better, they do better, they make more money, and they live better. We set an example and a standard that is great for the country and great for the insurance industry.

As China develops, obviously insurance becomes critical in almost every facet of life. Today, insurance is a growing business, but it took a lot of persistence and hard work. I cannot count the number of trips I made to China. When other foreign companies came in afterwards, decades afterwards, they believed they were entitled to the same treatment as the pioneer, but the pioneer should receive some benefits for being the first—because that first step is the hardest to take.

Eastern Europe. In the mid-1970s, I attended a Third World Insurance Conference in the Philippines. It was a very negative conference, with heavy socialist overtones. I went because I wanted to make the argument that free markets are better than closed-market economies—that a market economy was the best for the world. Insurance was on the agenda and I delivered a speech. During the meeting, I met the insurance commissioner from Romania. At that time the Iron Curtain was still up and Romania was a small, closed market with a state-run insurance company. We talked, and he was intrigued with AIG and what we were doing around the world. He invited me to come to Bucharest and I met with him on a trip to Europe.

We had thought about doing something in Eastern Europe, and even though it was still behind the Iron Curtain, we thought we could plant some seeds for the future. We visited Poland and Hungary in addition to Romania, and put together a joint venture, but it was like the United Nations to get them together. They wouldn't talk to each other but they would talk to us. We finally worked out an arrangement where the state company in each country would reinsure part of their business to a holding company. We put some of our own business in as well.

We learned about their markets long before they actually opened. We built relationships and knowledge of what businesses were likely to develop in those countries once the Iron Curtain came down, which we believed would happen one day, and, of course, it did. Today, AIG has a variety of companies in each one of these countries, and they are doing very well. Again, we were years ahead of anyone else. Some of our competitors used to laugh at the amount of time we spent trying to open these markets. Now, they wish they had spent some of that time.

Japan. The last example I will give you is Japan, which is our largest international market. AIG began operations in Japan almost the day after MacArthur landed there following World War II. The first licenses we received as a company were to insure the U.S. military and other assets the U.S. government had there. The Japanese are very good at finding ways of postponing decisions, but we finally got a non-life insurance license in the early 1950s. We built an organization and it flourished.

Years later when we wanted to get a life insurance license, the Japanese argued that they had no need for another life insurance company in Japan, which was the largest life insurance market in the world. In fact, they doubted the Japanese would want to insure with an American life insurance company. The largest life company at that time was Nippon Life. We had a lot of help from the U.S. government and we finally got a life insurance license many years later. Even after that there was discrimination, and it was very difficult to get anything approved by the Ministry of Finance. But today, we are one of the largest life companies in Japan.

In the late 1980s, the U.S. government began pressing Japan to liberalize its financial services industry. It culminated with a trip that President George H.W. Bush took to Asia, which I joined. It led ultimately to an agreement between the U.S. Trade Representative and the Japanese in 1994. The Japanese agreed to deregulation, but decided to deregulate the so-called "third sector" first because Japanese companies had no interest in it anyway, and then deregulate the first (life insurance) and second sectors (automobile, fire, and similar coverages) later.

We did not quite agree with that since we already had a foothold in the third sector. The Japanese never believed that the U.S. would be firm enough in their position to fight over this issue, but we were and the third sector was ultimately liberalized. This made a major difference to the consumer in Japan. On a recent trip to Japan, several bureaucrats and members of the Diet admitted that it was the right decision to liberalize the other sectors first, and the Japanese public has benefited dramatically as a result.

You have to be persistent and difficult at times to get things done. The working relationship between the government and private sector is important. You have to work hand-in-glove and many times educate your own government on certain things. Too often they are not focused on the economic realities that drive businesses in a global world. Yet, the more global the world, the more these issues will arise. Unless you understand the economics out there—I call it "geo-economics"—you are not in tune with reality.

Closing Thoughts. It is a more difficult world in which to do business today than at any time I can recall. There are so many more risk factors—and insurance is a risk business. In addition to property, aviation, and the traditional risks that we understand, there are the newer risks of terrorism or war, currency crises, interest-rate risk, volatility risk, market risk, and health risks like SARS that profoundly affect markets. It is a tough environment, and now includes the accounting and regulatory risks. The global CEO today must deal with problems all at once that they never had to deal with before. It is worse than any time I can recall.

But, we've learned to deal with problems as they arise, and every company has to do the same to be successful. For example, we operated in Pakistan for many years, but when the first President Bhutto came to power, he nationalized the foreign insurance industry, including AIG's life insurance company, which was the largest foreign life company in Pakistan at the time, without even a conversation about compensation. Several months after President Bhutto came to power, he came to New York to try to convince the investment community to invest in Pakistan. I had a copy of his intended speech, and I went up to him before the speech and said, "Mr. President, if you make that speech, I will get up and say, 'Don't invest,' unless we get compensated." He called his aide over and we settled it that afternoon. We faced a similar situation in Peru, when President Fujimori's predecessor nationalized Belco, a large energy company that we had insured. As a result, we ended up paying out a major political risk claim. These are the kinds of things that are largely unpredictable, and you have to deal with them as they come up. It is part of being actively engaged in a market.

So if you are going to do business globally, you have to be active. Problems are inevitable. Foreign countries do not always share our sense of values or have similar laws. That makes it challenging, but in the end it is worth it.

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