



# Prospecting for gold

Developing nations such as China and India represent good opportunities for insurance. However, it pays to tread carefully around local customs and plan for the long haul. By Ann-Maree Moodie



尊河南

思善識

大賢光

唐 魏王 吳忠明 吳留聲 合家敬獻

尊者

法自在

唐 魏王 吳忠明 吳留聲 合家敬獻

If a house or a commercial building was alight, one would expect that the fire brigade would be called, that water from hydrants would be easily accessible for the fire hoses and that the firefighters would be confident that the building conformed to high local standards of construction.

Apply this same example in an emerging or developing nation, and the scenario could be quite different: building construction standards and materials will vary enormously, firefighting equipment may be non-existent and even effective water pressure may not be available.

These are some of the issues facing international insurance companies such as QBE Group and Chartis Insurance which operate in countries as diverse as China, India, Chile and Uganda.

“Something as simple and as common as fire insurance is fundamentally different to evaluate in an emerging market versus a developed market where there are high-rise buildings that meet the highest standards of fire prevention materials and construction, as well as having the benefits of fire brigades and the availability of water,” says Tony McHarg, Regional Manager, Multinational Accounts for Chartis Asia Pacific.

The example of a house fire highlights the many differences that need to be understood and managed when insurance companies expand into developing countries where resources are limited and local cultural norms and nuances dictate

“ FROM AN INSURANCE PERSPECTIVE, THE RISK EXPOSURES AND HAZARDS WILL CHANGE FROM COUNTRY TO COUNTRY. ”

alternative ways of doing business. Regulatory environments, taxation, the maturity of the legal environment and business practices and ethics are likely to be vastly different to Western practices. “And from an insurance perspective, the risk exposures and hazards will change from country to country,” says McHarg.

Chartis Insurance has operated in developing nations for almost 100 years. In 70% of the markets in which the company operates – including Africa, the Middle East, Asia Pacific, and South America – it has had a presence for over 30 years. And the growth hasn’t slowed. In the past decade, Chartis has provided first-to-market solutions for 11 countries including Lebanon and Vietnam.

“We have a history of entrepreneurship and early entry into new and emerging markets – it’s fundamentally in our DNA – and it’s also one of our core strengths as an organisation,” says McHarg.



“It gives us a mix of skills and experience, quite apart from country reach as well as a flow of product innovation that allows us to move across those different markets in order to meet customer needs and the opportunities that we seek.

“Our strategy is to follow our clients in their business. We think that being where our clients are moving to, being on the ground with them, and taking up the opportunities to develop language and cultural skills and experience, is a strategy that has served our organisation well for the past 80-90 years.”

Chartis supports both the local insurance market in any one country as well as multi-national companies which are likewise creating a footprint in the region. “If you look at any one country, you will have a domestic market and quite often you’ll also have very sophisticated multinationals who are also operating in that country – so you are serving a spectrum of customers in any of those jurisdictions whether they’re emerging or developed,” says McHarg.

#### Nurturing local innovation

It would be incorrect to assume that the best approach is to transfer skills and experience from a developed nation’s perspective to those of the emerging country. “It’s quite the opposite, in fact,” he says.

“Some of the defining characteristics of our organisation have been forged in the emerging markets as a new market entrant. The opportunities bring innovation, and necessarily, a make-do attitude to get things done. This is because you rarely have everything you need in an emerging market.”

“SOME OF THE CULTURES YOU WORK WITH ... ARE HUNDREDS OF YEARS OLD SO THEY DON'T SEE A COUPLE OF YEARS AS BEING LONG TERM.”

QBE Group, likewise, has a long history of working in developing nations where it sells a variety of insurance products including property, motor vehicle and public liability insurances. “Australia is only 1.5% of the world market so if you want to be growing your business and competing internationally, you really have to go offshore from Australia,” says Vince McLenaghan, CEO of QBE Australia Asia Pacific.

“Therefore, our expansion into developing nations is driven strategically. There is a great deal of interest in emerging markets as well as a growing recognition that bigger and more

mature markets have many things to learn from operating in these countries.”

New product innovation is one example. Emerging countries have created unique opportunities to innovate products such as micro insurance and the Islamic form of insurance called *takaful* (see page 48).

#### Long-term commitment

With the opportunities comes a long-term commitment. For example, QBE established its first office in China more than 12 years ago. “You have to take a long-term approach,” says McLenaghan. “Some of the cultures you work with in establishing a presence in another country are hundreds of years old so they don’t see a couple of years as being long-term at all.

“It’s like painting a house: 90% is in the preparation and 10% is in the painting. So too, 90% of establishing an office is in the research: setting up the foundations of the business, installing the right systems, employing the right people and developing an understanding of the market.”

And a long-term commitment may mean decades. “In a lot of these markets, you won’t get a return for up to eight years,” says McLenaghan. “So you can’t think: ‘I’ll just go in there for a few years and try it out.’ If you’re going into the market you have to be committed for a long, long, time. If you’re happy to do that, you then have to ask yourself: ‘why are you happy not to get returns on the capital for that length of time?’ This is where the strategic trade-offs come in.”

This isn’t to say that QBE Group is seeking a presence in every emerging market. “We’re not driven by the idea that we must have a flag in the ground everywhere – that’s not our strategy,” says McLenaghan.

“Our strategy is to seek out the markets that demonstrate long-term growth and profitability, opportunity for expansion, and have a conducive regulatory regime for free market expansion. Obviously we try to minimise the downside, such as the cost, and try to maximise the upside to get the quickest returns that we possibly can. But in some markets it might take, six, seven or eight years to get your returns.”

#### No need to rush

QBE is careful not to necessarily be the first in any one country. “In many markets there may be perceived early adopter advantages but they’re very hard to realise,” he says.

“Some companies will go into new markets and they’ll have very heavy infrastructure and costs and it may take them a long time to get a toehold in that market. I’ve seen companies celebrate because after 10 years the expenses were finally overshadowed by the premium income!

## CASE STUDY: INDIA

With an annual growth rate of 15-20% and the largest number of life insurance policies in force, the potential of the Indian insurance industry is huge. The total value of the Indian insurance market is estimated at 450 billion rupees (US\$10 billion).

To date, only 20% of the total insurable population of India is covered under various life insurance schemes; the penetration rates of health and other non-life insurances in India is also well below the international level. This points to immense growth potential of the insurance sector in India.

### Revolution of 1999

The year 1999 saw a revolution in the Indian insurance sector, as major structural changes took place with the ending of government monopoly and the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership.

Since 1999, foreign investments of 8.7 billion rupees have poured into the Indian market and 21 private companies have been granted licences.

Source: RNCOS report: Indian Insurance Industry: New Avenues for Growth 2012