

A long and winding road

The drive toward enduring success in emerging markets



The great thing in the world is not so much where we stand, as in what direction we are moving.

— Oliver Wendell Holmes

IN COMMON WITH GLOBAL companies of all sizes, the XL group remains constantly vigilant for new opportunities. Without growth, we die, as the saying goes. But this is not about growth for growth's sake — it is about making provision for the future. Jacqueline Jones, XL's Head of Segment Strategy and Development, explains: "Our job is to ensure that in the long term there are sources of continuing profits. We have to be confident that we are not only doing what we are good at now, in the countries that are important to us now, but that we will have an income stream in the future."

Today, planning for the future inevitably leads to talk of emerging markets — the big four BRIC countries, Brazil, Russia, India and China, as well as the rest of Latin America, and the Eastern European nations. The attentive com-

pany looks to these regions as untapped markets for existing products.

Somewhere between 80% and 90% of XL's business is generated from the developed economies of the world. On the assumption that the balance of global economic power has a propensity to periodic readjustment, it makes sense to explore additional territories, although it does not always make sense to locate in these jurisdictions. Newly established or relatively untested financial, regulatory, legal and tax frameworks are fraught with risk for new foreign entrants, and the potential for political instability with all its economic consequences is also a major deterrent.

But a company like XL does not need to have a physical presence everywhere. "Since we don't do personal lines and retail life — which are the biggest growth areas — we are not going to be operating directly in many of these countries," says Jacqueline. "Neither do we need to be physically located in parts of the world where the

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Emerging markets, continued

major risks, such as energy and shipping, come to us anyway, through our wholesale Lloyd's and Bermuda operations, or through XL Re.

“But having said that, development in emerging markets is a very important part of our long-term strategy.”

This strategy is clearly evident in recent moves by the XL group in China, India and Brazil. A representative office was opened in China in early 2006. This was followed by a unique initiative in conjunction with the Chinese Insurance Regulatory Commission, involving a leadership education program for the China insurance industry, developed with The Wharton School of the University of Pennsylvania. “This is the country we know we will have to be in, in the long term. If you look at China’s development in the last decade and the economic growth forecasts, there is no doubt that it will be a major economy. There will be significant opportunities and a company like ours should be there.” In India, an XL office of highly skilled employees is providing support to the company and their work is an important component of many key functions in our global company. Aside from this, India is also a vibrant and growing economy and offers long-term opportunity. “In both China and India, we are well placed to consider our next moves because we are there, on the ground,” says Jacqueline.

The latest big move for XL, however, is in Brazil where a joint venture was launched in 2006. This was not a new market entry, as XL was already operating in Brazil, the world’s 14th largest economy. “The formation of a joint ven-



ture company with Banco Itaú Holding Financeira S.A., the leading Brazilian bank and number three commercial lines insurer, has given us a very strong partner,” notes Jacqueline. “Doing business in a different environment, we do face some broader regulatory risks, but this partnership ensures that we don’t trip up. They bring their deep understanding of the Brazilian market; we bring the skills, experience and relationships developed in the open market. It really does offer the best opportunity for return on investment for shareholders. We also hope that this will provide a platform from which we can develop other business in Latin America.”

As a New York Stock Exchange listed company, XL needs to consider the terms of engagement in any of the new territories it enters. “It’s important that we evaluate whether the broader regulatory, legal and institutional framework, and business practices in a region match both SEC requirements and our own company values — and whether we can function successfully, i.e. profitably, within that environment,” says Jacqueline. “We are always looking for that new ‘something’ to assure our

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future — and it needs to be where we will have the best chance of success, and in a business environment in which we can comfortably operate.”

For XL in Brazil, there is no doubt that the pieces all came together very neatly in 2006. The joint venture company is now writing \$200 million in business, compared with the \$11 million XL was previously writing. And there is a potential benefit for XL’s reinsurance business in Brazil. The XL brand is now seen as bigger and more serious due to the Itaú relationship, and this means XL Re will be taken more seriously too.

“Overall, I believe we are in a very good position right now,” says Jacqueline.

