These labor shortages are amplified in many emerging markets where a skilled workforce is often nonexistent. Expatriated employees can also help get projects off the ground in such markets, but they may not be able to satisfy all labor demands.

Without sufficient skilled labor, the risk of an adverse health, safety or environmental incident increases substantially. Thus, an EMEPED's success in an emerging market will depend upon its ability to solve its labor constraints.

Hiring Local Counsel

One of the first steps to getting established in a new emerging market is to retain advising attorneys on the ground who are licensed in the host country. This will help ensure that company operations comply with local laws and regulations. Hiring local counsel can often feel like hiring a tour guide for a new adventure—there is often an infinite supply of willing parties, a lack of good information on satisfied (or unsatisfied) customers and a range of prices that is rarely directly proportional to the quality of the service provided. But like the tour guide, the right local counsel can be the difference between an efficient, properly managed venture and a laborious, painful headache with potentially disastrous consequences.

The first step in hiring local counsel is to consult with the company's domestic counsel. Many large commercial law firms have offices all over the globe, and even if they do not have an office in the project country, they may have an office in the surrounding region. This can mean familiarity with the government institutions and how they interact with foreign investors, personal relationships with skilled attorneys in the host country, and a general understanding of the legal complexities that exist in a particular emerging market. If the domestic law firm does not have an office near the project country, the firm will likely be able to provide a referral for competent local counsel.

Good local counsel will make the process of complying with local laws more efficient and transparent. Companies should reach out to local counsel as early in the investment decision-making process as possible, and communicate with them throughout the life of the project.

Local Content Concerns

Local content is generally thought of as the requirement that a project funded

Global Expansion and the Need for an Effective

It seems like only yesterday that discussions about growth focused on technology, including everything from the internet and broadband to ERP and CRM. Technology growth continues to be important, but growth now also focuses on how to expand to new global markets—tapping both new emerging economies as well as resurgent developing economies. This is a result of an increasing amount of global insurance revenues moving away from traditionally developed economies to emerging markets.

The leading driver of this trend is the rise of the emerging market middle class, but there are also other factors. For example, global personal lines insurance is growing because of increasing car and housing ownership, and the rise of low-cost airlines in Europe, Latin America and Asia. Alternatively, the globalization of financial markets, government spending on infrastructure, and the privatization of large companies formerly owned by the state is fueling global commercial lines growth. The most attractive markets remain the BRICs, but depending upon a carrier's product portfolio, markets like Turkey, Indonesia and Mexico can be even more alluring.

For insurers, leaving their home territory is a complex undertaking. The first questions are usually if they can maintain their current risk discipline as they expand or if they will need to refine their risk appetite, and if they can achieve this refinement while maintaining profitability. Even large players with sophisticated risk groups and operations in many regions around the world can struggle to fully and consistently maximize global growth opportunities.

One of the critical factors in global expansion is distribution channel strategy. It is essential to the rate of growth and market penetration and fundamental to the insurer's ability to maintain the appropriate risk discipline and increase profitability. There are several factors that are important in creating a successful global strategy, but the two most important are how well the carrier tailors its channel strategy and how well it chooses its global distribution management structure.

A TAILORED APPROACH

To be successful in global expansion, insurers must consider the most appropriate channels based on a given country's economic and insurance market maturity. Market maturity is important because the diversity of channels increases as an insurance market matures. According to a recent PwC study ("May the Distribution Forces Be with You"), "nascent markets" offer few insurance products and therefore require few channels. Alternatively, "late emerging markets" often experience diversification of products in personal and commercial lines, which increases the need for new channel options.

by foreigners generates value for the host country's economy. While local content requirements are not a new phenomenon, there has been a renewed emphasis on increasing local content participation in many emerging markets. Although these requirements vary from market to market, local content regulations are generally implemented with the intention of promoting growth, creating local employment in the host country and keeping wealth within the host country's borders. Accordingly, one of the key components of local content requirements in any project—and the standard by which compliance is often measured—is the ratio of host country nationals to expatriates in such a project. Often, local content regulations require that up to 30% of the workforce consist of local labor.

In an era where energy companies in developed economies face manpower shortages, satisfying local content regulations can be daunting. And running afoul of such requirements (whether by an EMEPED's contractors or otherwise) can lead to serious monetary damages or, in a worst case scenario, nationalization of an EMEPED's assets and a rescission of all grants, licenses and contracts from the host country.

The lack of skilled talent likely stems in part from the generally low energy price environment that existed for the better part of the last two decades of the 20th century. That environment inhibited investment and energy technological advancement and, in turn, diminished interest among university students in pursuing an energy career. Businesses are now feeling the effects of the dearth of college graduates with petroleum, engineering or geology degrees from that period of time.

Moreover, many of the emerging markets that have caught EMEPEDs' interest are in regions with little history of significant oil and gas production. As a result, there has never been a demand for local universities to offer energy-related programs. More troubling, given the age of the current skilled energy workforce in developed economies, there is growing concern that the industry will lose a significant portion of its skilled workforce to retirement within the next decade. This will make the skilled labor shortage even more pronounced at a time when many large-scale energy projects now on the drawing board will come on-line.

To manage this risk, EMEPEDs

Distribution Channel Strategy *by Marie Carr*

It is also important to note that insurers should consider both the countries that are currently in their existing portfolios as well as any future targets when tailoring distribution approaches. In doing so, they should consider all of the distribution channels at their disposal in a particular country, and then focus on the combination of channels that makes the most sense. While markets in most countries will see some combination of agents, brokers, bancassurance, affinity and retail, and direct to consumer, it may be necessary in some instances to explore using alternative or emerging technologies or partnerships such as mobile, social media and microinsurance.

AVOIDING REGIONALISM

Choosing the right distribution channel mix is only half of the battle. An appropriate global distribution organization is also vital. Many insurers view global expansion on three levels: global, regional and local. Some of the largest international insurers have adopted regionally led distribution strategies. This rise of "regionalism" reflects a desire to avoid the obvious limitations of globally or locally driven organizations. However, regional approaches also have their shortcomings. Regionalism forces insurers to make comparisons with nearby countries (which may, in fact, be quite different) or overlook comparisons with remote countries that have potential similarities.

Instead, insurers should make every effort to avoid a predominantly regional perspective. Insurers will benefit from adopting a perspective that marries the international diversity of markets with each market's unique local characteristics. To get the best results, the insurance organization should be designed to facilitate global information sharing across countries and regions.

PRIORITIZING DISTRIBUTION

While the international expansion of a business can be very challenging, a methodical approach that begins with considering the distribution channel needs of each market will promote success. For those companies considering or actually undergoing expansion, now is the time to begin shaping a global distribution channel strategy and organization—even if future expansion is farther down the road. Carriers all too often make the distribution channel mix a secondary focus because their primary focus is product or potential partnerships. However, reversing the order—or least ensuring that it is part of the primary discussion—can enable more effective business strategies, expand profitability and help drive faster growth.

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