

Mutual societies in Europe



An introduction to mutual societies in Europe
Antwerp, 25th October
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Presentation based on:

Broek, S.D., Buiskool, B.J., Van der Horst, R., Vennekens, A. (2012), Study on the current situation and prospects of mutuals in Europe; DG Enterprise European Commission + annex report

Broek, S.D., Buiskool, B., Grijpstra, G., Plooi, M., (2011), The role of mutual societies in the 21st century, study commissioned by the European Parliament, Employment and Social Affairs



Content

- Definition and demarcation
- Activities and legal status
- Importance and value of mutuals
- Handling the crisis
- Future role
- Difficulties mutual face

Definition and demarcation

“Voluntary groups of persons (natural or legal) whose purpose is primarily to meet the needs of their members rather than achieve a return on investment. These kinds of enterprise operate according to the principles of solidarity between members, and their participation in the governance of the business.”
(European Commission, 2003)

- Firstly, the legal entity has to be a private entity, falling under private law.
- Secondly, the legal entity is in the first place a grouping of persons (physical or legal), not a pooling of funds.
- Thirdly, the legal entity is subject to democratic governance, i.e. each member has one vote.
- Fourthly, the legal entity embraces the principle of solidarity among members.
- Fifthly, as the members are also the owners of the organisation, profits are used for the benefit of members.
- The mutual-type organisation should somehow be recognised as a mutual by law.

Activities and legal status

Activities Legal status	Activities subject to free competition (Fall inside the scope of the TFEU)	Activities not subject to free competition (fall outside the scope of the TFEU)
Mutual status	Life, non-life insurance; complementary health insurance; health care and assistance; other services offered by mutuals	Statutory protection and Social services of general interest of non-economic nature operated by mutual-type organisations
Non-mutual status	Same activities offered by other types of organisations (e.g. private liability companies; cooperatives; associations).	Statutory protection and Social services of general interest of non-economic nature operated by others (e.g. public entities).

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Importance and value of mutuals

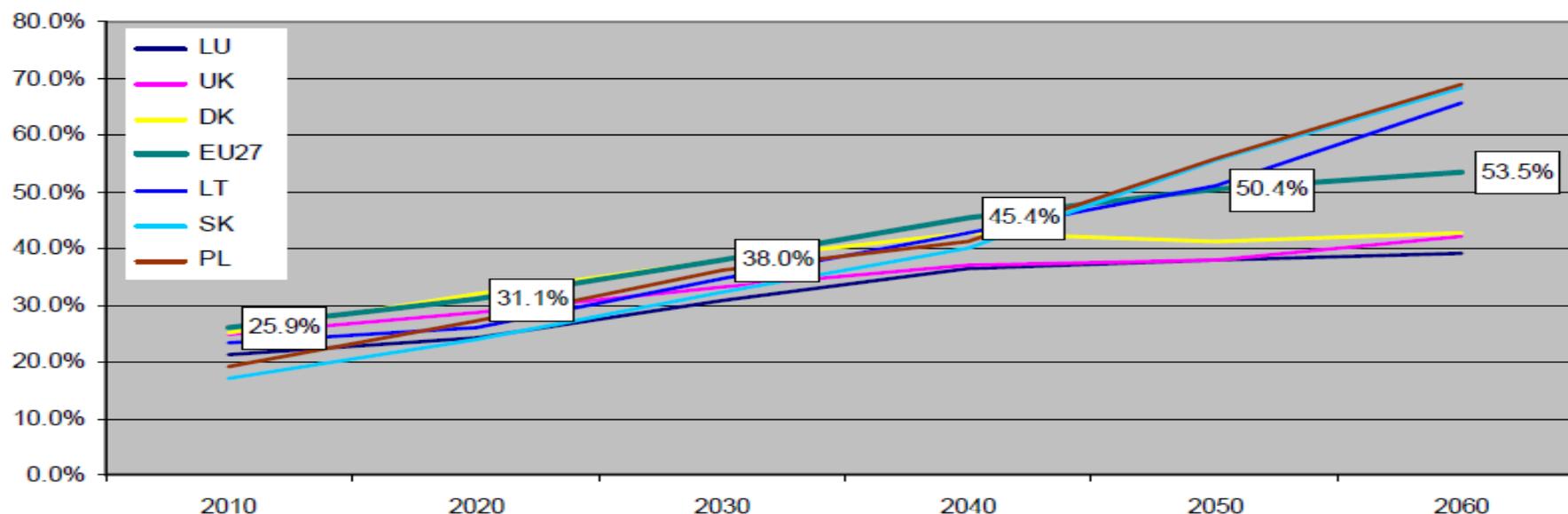
- The market share of the mutual insurers is around 15.8 % (12.8 % in life; 20.5 % in non-life).
- The total premium growth in 2010 was 4.9 %
- The number of employees working in mutual insurance companies was 221,888.
- In health care assistance and social services, mutuals are estimated to provide services to approximately 230 million European citizens

Handling the crisis

- The impact of the crisis is clearly noticeable in 2007 and 2008, but the mutual insurers recovered rapidly in 2009 and 2010.
- Most mutual companies have more and better quality capital (they generally have smaller amounts of debt in their capital structure) to absorb unexpected shocks;
- Their business focus and product offerings are less risky;
- They are involved in less financial/public disclosure and headline
- They have diminished access to capital markets, but, as a consequence, are less dependent on it;
- They have greater alignment of owners and creditors/policyholders with a longer-term orientation.
- Plea for heterogeneity in the market – diversity in company forms

Future role

- Public expenditure on social protection is likely to be put under pressure due to demographic change (ageing society).



Source: Eurostat, EUROPOP2008 "convergence scenario", calculated by the authors.

- Shift of coverage from the statutory, compulsory part of social protection, to the supplementary part. Increased costs for those at risk insufficient coverage for these groups

Difficulties mutual face

Establishing a mutual:

- complying with the capital requirements for an insurance licence is one of the major challenges when establishing a new insurance mutual.
- the lack of expertise and information on how to establish a mutual, poses a huge obstacle.
- there are six countries where due to the lack of legal possibilities, it is impossible to create a mutual-type organisation

Competition with other companies:

- Legislation on governance, capital requirements and disclosure is more attuned to large PLCs and hence mutual have difficulties complying to them (Solvency II)
- mutuals progressively take over characteristics from their joint-stock competitors, to maintain healthy and sustainable businesses
- Due to mutual company form, mutual have difficulties forming (vertical) groupings, also across borders

General:

- The company form is often limitedly known by consumers and also Supervising Authorities
- the organisational form and mutualist values are under severe pressure in some Member States and in the EU in general
- increasing competition with joint-stock companies and more stringent conditions for financial institutions will lead to more uniformity of the market, market concentration, and mutuals moving towards niche markets

To conclude

- There is a large variety in legal types.
- Mutuels play a large role in European society, serving a large part of the population.
- Mutual values become increasingly important for pursuing a social Europe.
- Their organisational form and mutualist values are under severe pressure in some Member States and in the EU in general
- Mutualisation of risk has a long tradition and adds value to the economy and the society at large

Thank you for your attention



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