

# Mutual societies in Europe



**An introduction to mutual societies in Europe**  
**Antwerp, 25th October**  
**Simon Broek**

*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

<b>Activities</b>  <b>Legal status</b>	<b>Activities subject to free competition (Fall inside the scope of the TFEU)</b>	<b>Activities not subject to free competition (fall outside the scope of the TFEU)</b>
<b>Mutual status</b>	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
<b>Non-mutual status</b>	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

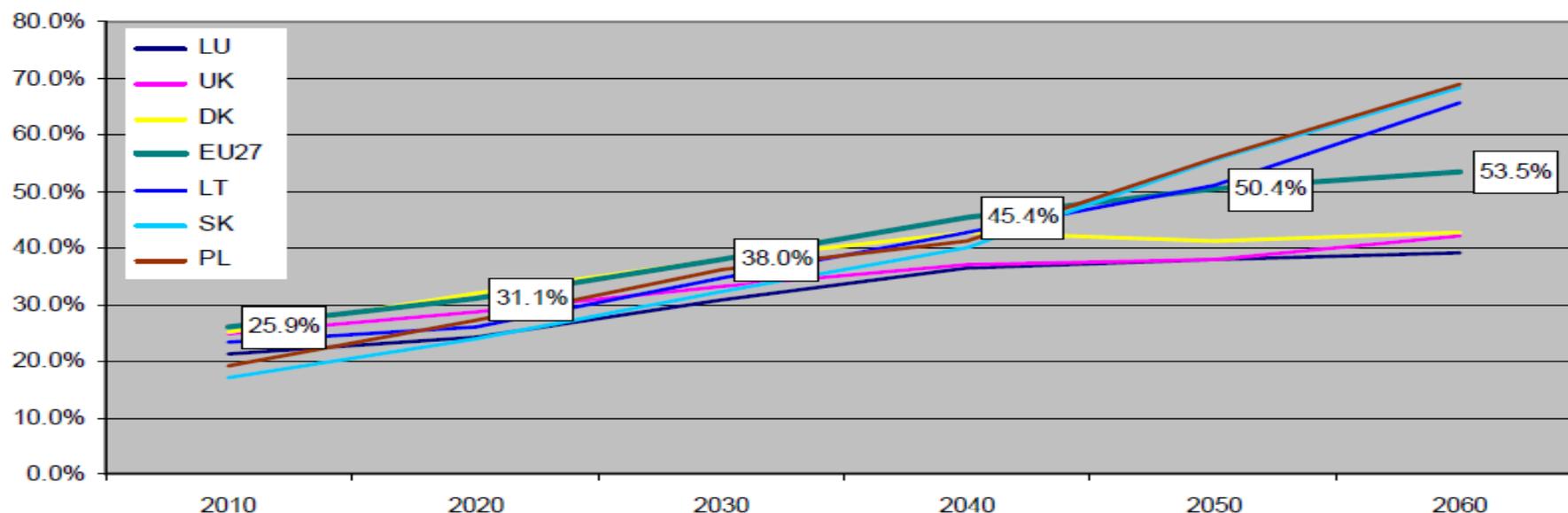
- The market share of the mutual insurers is around 15.8 % (12.8 % in life; 20.5 % in non-life).
- The total premium growth in 2010 was 4.9 %
- The number of employees working in mutual insurance companies was 221,888.
- In health care assistance and social services, mutuals are estimated to provide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