

III. Opportunities

First opportunity: the insurance market is still expanding

□ The universe of risks is expanding. Globalization and new economic and technological activities mean new risks for the future, and with these new risks come more development opportunities for the insurance industry.

□ New markets are emerging which are of strategic importance for individual protection, and they are right in line with the objectives of mutuality:

- Pensions are a major problem in every European country, and are even a vital issue in some countries such as France and Germany, where the existing systems are in danger;
- Dependency - due to longer human life expectancy, the risk of partial or total dependency is growing exponentially.

These policy areas correspond perfectly to mutual insurers' areas of expertise.

Second opportunity: make a distinction between ideals and instruments

A mutual insurance company should use all the instruments of modern management and communication in a 100% member-policyholder perspective. This does not exclude the generation of profits, but gaining profits for profit's sake is unacceptable. Mutual insurance companies must be at the cutting edge of progress:

- By setting very specific objectives
- By using the arsenal of strategic possibilities available both

today (recourse to loans through equity notes or redeemable subordinated notes, setting up subsidiaries, introducing membership fees (tax-exempt in France, for example), etc.) and tomorrow (creation of mutual holding companies, conclusion of partnerships, etc.)

- By accepting and seeking assessment by rating agencies (both financial and ethical)
- By using modern means of management and communication, such as call centres and the Internet.

Third opportunity: invest in the relationship with member-policyholders

Another opportunity for mutual insurers lies in investing, or rather reinvesting in some cases, in the relationship with member-policyholders:

- Through dialogue
- Through prevention and mutual assistance
- Through profit-sharing
- Through the provision of additional services
- Through a more effective claims-management service

Fourth opportunity: the imperious need to communicate

Mutualist values and practices must become better known, not only on an in-house basis (with employees and member-policyholders) but also externally among supervisory authorities, the general public, journalists, financial analysts, etc.

One of AISAM's main objectives is to promote the mutual insurance form. Several recent studies pointed to a lack of information amongst staff working for mutual insurers on their company's status as well as amongst the company's member-policyholders.

This short guide was produced by AISAM's Development, Information and Promotion of Mutuality working group for staff and member-policyholders of mutual insurance companies to help them understand what it means to work for or be insured by a mutual insurer.

The authors hope that it will help raise the profile of mutuality to the benefit of all AISAM members and all mutual insurance companies. It is not intended to be a legal or definitive text but a tool in wider communication policies.

For further information, please contact the AISAM Secretariat.

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MUTUAL INSURANCE: WHAT IS IT? WHY USE IT?

A GUIDE FOR MEMBER- POLICYHOLDERS AND STAFF



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I. Definition

A MUTUAL INSURER IS AN INSURANCE COMPANY WHICH IS COLLECTIVELY OWNED BY ITS MEMBERS AND WHICH ACTS IN THE BEST INTEREST OF ITS MEMBERS.

This definition enables us to draw attention to two essential points:

The «property» of members:

As member-policyholders, the members of a mutual insurance company directly or indirectly determine corporate policy through many different points of interaction. Their involvement makes it possible to establish a balance between maximizing profits and delivering high-quality services.

The ownership of the member-policyholders is highlighted even more by the fact that they are generally treated with equality.

Acting in the best interest of its members:

Transparency to member-policyholders, competitiveness and long-term vision allow mutual insurance companies to offer member-policyholders high-quality services at the lowest possible price.

Given that mutual insurers do not have to pay dividends to shareholders as in other types of companies, financial investments and long-term management converge towards the goal of securing long-term profitability while maintaining the loyalty of member-policyholders.

Instead of focusing on short-term profitability, principles such as ethics, democracy and the active participation of member-policyholders in the activities of their mutual insurance company take priority. This active participation is not only sought after in management activities, but also in the creation of new products for example.

II. Strengths

1. A unique legal concept

Most mutual insurance companies are owned by their member-policyholders, except for example, in France, where they are said to be «controlled» by their member-policyholders.

However, in every case, their final objective is to render the best possible returns and services to member-policyholders. Rather than being dedicated to making profits in the form of dividends, this member-oriented strategy offers a large number of potential advantages which mutual insurers have turned into strengths:

❑ Mutual insurance companies have no shareholders and thus no equity to remunerate

- They have no overriding need to keep their eyes riveted on stock-exchange prices, and they do not have to constantly evaluate the return on investment to be paid to shareholders, as they have none.
- As they are immune to take-overs, they can manage their business deliberately and constructively on a long-term basis, without however neglecting the rules of good management applicable to any company.
- The aforementioned characteristic, combined in some cases with distribution without intermediaries, allows mutual insurers either to propose very competitive cover offering excellent value for money, or to redistribute profits to member-policyholders via rebates, for example.

❑ In a mutual insurance company, member-policyholders are both individual insured parties and collective insurers

This basic characteristic makes it possible to eradicate those conflicts usually encountered in other types of companies, which cause time and energy to be lost between:

• Clients / Shareholders:

In a mutual insurance company, these two groups are one and the same.

Within a mutual, decision-making and arbitration take place naturally without any need to choose between serving clients and serving shareholders (a real dilemma for other types of companies).

• Managers / Member-policyholders:

As mentioned above, managers of mutual insurance companies are subjected to less pressure (stock-exchange prices/predators/shareholder demands, etc.), and can therefore focus on fulfilling the needs of their member-policyholders.

Furthermore, the system of governance implemented within the structures of mutuals allows the member-policyholders to control the managers (by electing or participating directly in the Board). The Board members are responsible for their actions through the legislation in force in each country, but they also have a "moral" responsibility to their member-policyholders who elected them.

2. A corporate model drawn from history, but more valid now than ever before

The ideal of solidarity, which instigated the creation of insurance structures in general and mutual insurance in particular (geographic or professional ties), is still intact today.

The mutualist structure has emerged as a fair alternative following the recent scandals in the United States and Europe, embodying values with which men and women wish to be identified.

This mutuality is often supported and implemented by those who are recognized in the insurance sector for their professionalism and their commitment to a model which is still not very well-known to the general public and the business community.

3. Taking member-policyholders effectively into account

In mutual insurance companies, member-policyholders are more than just relationships based on a commercial transaction. The ability to take member-policyholders personally and individually into account is a natural advantage for mutual insurers.

Through their right to vote (generally «one man, one vote»), member-policyholders can really be involved in the corporate life of the mutual insurance company and its strategic decision-making.

Mutuals cultivate and encourage the right to express oneself. While other types of companies spend considerable amounts of time and money on polls, surveys and panels, mutual insurers can access similar, more qualitative information, by organizing dialogue sessions with their member-policyholders, who are really keen to get involved.

The member-policyholder:

- has a feeling of belonging and involvement (they are not targets, they are the core of the mutual)
- is a concrete source of proposals relating to the creation of new forms of cover
- provides a systematic early-warning system against possible malfunctions or misguided strategies
- develops a vocation, since satisfied member-policyholders naturally become ambassadors for their mutual

This particular attention to member-policyholders is clearly summed up in the marketing slogans of AISAM member-companies:

- *Fennia* (Finland) talks about «Member value»
- *LB Group* (Denmark): «Our attempt is to find cover – not refusal or reduction»
- *Liverpool-Victoria* (UK): «We're all yours!»
- *Länsförsäkringar* (Sweden): «We work for an idea – not the price of shares»