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FOR MUTUAL BENEFIT

What is mutual insurance?

A mutual insurer is an insurance undertaking which is collectively owned by its members who are at the same time its clients (policyholders).

The crucial role of the members of a mutual

As member-policyholders, the members of a mutual insurance company directly or indirectly determine corporate policy through many different points of interaction. The congruence of ownership/control and being a customer makes it possible and necessary for the mutual undertaking to establish a balance between maximising profits (generally an interest of owners) and delivering optimal high-quality services (an interest of clients)

Traditionally, all clients (policyholders) of a mutual insurer are members; in some jurisdictions, however, mutual insurers also have policyholders who are not members. Typically, every member of the mutual has an equal vote in members' meetings.

A unique legal concept

Most mutual insurance companies see themselves as being "owned" by their member-policyholders. This fairly unique concept (for similarities with and differences to cooperative structures, see below), has several consequences that mutual insurers have turned into strengths:

Since mutuals are not established through the provision of capital by their members and do not have any shareholders, they do not have to reward equity investors by paying dividends. Generally therefore, mutuals:

- are able to construct their products in a very competitive way;
- are able to retain profits in the company to build up reserves for good risk provision and future growth;
- have the possibility to re-distribute profits to membership, e.g. via refunds and rebates;
- have the possibility to establish particular bonds with their employees, e.g. by including them in result-related remuneration schemes;
- have no need to keep their eyes fixed on shareholder value, on maximising returns to capital investors or on the development of the price of their own shares;
- are immune to takeover bids – this, together with other characteristics, fosters long-term strategic planning and means the undertaking does not have to be managed in line with short-term interests;
- engage strongly with their local communities.

Instead of focusing on short-term profitability, the management of a mutual can look at broader aspects, such as ethics, democratic governance, and a wider social responsibility, and can enter into intense interaction with member-policyholders about their needs and expectations.

Acting in the best interest of its members

Enhanced information to member-policyholders, competitiveness and long-term vision allow mutual insurance companies to offer member-policyholders high-quality services at a low price.

The basic characteristics of a mutual make it possible to avoid certain conflicts of interest that can emerge institutionally in other corporate structures and that usually require time and energy to identify and address.

Clients vs. shareholders (owners)

In a mutual undertaking, these are institutionally the same (or at least identical to a large extent). This means that in strategic and operational decisions, the board members and/or managers of the mutual do not have to decide between these stakeholder groups.

Management vs. member-policyholders

Managers of mutual undertakings are subjected to less pressure from "outside" for adequate capital returns (in the form of dividends and/or share price developments) and can therefore focus on longer-term strategies and more directly on the need of their clients.

In addition, a system of governance where member-policyholders have (directly in members' assemblies or indirectly through members' representatives in assemblies or though board participation) an influence over the management provides direct accountability of the management to policyholders.

In mutuals, this typically leads to a high level of "moral obligation" of the management to the clients (and members) of the undertaking.

A corporate model with its roots in history

Some of the earliest examples of "insurance" are characterised by the concept of solidarity. As early as 2000 BC, Chinese river boatmen assembled before rapids and distributed their loads evenly among all barges in order to share the loss in case one barge should sink. Ancient Greek tradesmen whose goods were shipped on the same vessel shared the loss if in a storm the captain had to throw the goods of one of them overboard in order to save the ship and the loads of the others.

The ideal of solidarity, which instigated the creation of insurance structures in general and mutual insurance in particular, is still intact today. Solidarity among holders of the same profession (e.g. farmers, fishermen, craftsmen, architects) or of people living in the same area lies at the root of most of today's mutual insurers.

For mutual insurers and their associations, it is evident that the mutualist structure is a valid alternative to other legal structures which are currently suffering from the financial crisis – very often for reasons linked to the need to show high rates of return to shareholders.

Taking member-policyholders effectively into account

In mutual insurance companies, member-policyholders are more than just relationships based on a commercial transaction. Through their right to vote, member-policyholders can really be involved in the corporate life of the mutual insurance company and its strategic decision making.

Insurers that are organised in other corporate forms have to spend considerable resources to maintain a close relationship and an effective exchange of information with their clientele. Mutual insurers have an institutionalised, natural close link to their policyholders and see themselves therefore able (and obliged) to respond quickly and appropriately to their customers' needs and expectations.

In return, the member-policyholder of a mutual typically

- has a feeling of belonging and involvement and sees him/herself not as the external target of the mutual's activities, but as an active participant;
- is a concrete source of proposals relating to the improvement of existing products and the developments of new forms of cover;
- provides an institutionalised early-warning system against possible malfunctions or strategies that threaten to drift away from the needs of the clients;
- develops a particular bond to his/her insurer and a vocation since satisfied member-policyholders are the best ambassadors for "their" insurer.

Cooperative structures in insurance

The cooperative movement covers a significant part of the economy in Europe. In some Member States, cooperative insurers have a significant market share alongside plc-type insurers and mutuals.

Cooperatives share large parts of their ethos with mutuals: like mutuals, they operate in the best interest of their members by whom they are owned. The capital of cooperatives is raised from capital contributions from members (and may therefore be rewarded by way of paying dividends), but members often receive additional benefits, e.g. in the form of rebates.

Cooperatives are also traditionally organised in a democratic way, on the basis of "one person - one vote". The absence of major shareholders or of a quotation of their shares on an exchange allows an insurance cooperative to reap many of the structural benefits traditionally related to mutuals, as outlined above.

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