



**Eurofi 2008 -
Thursday 11/09/08**
**Session [11A] - FUTURE
OUTLOOK FOR EU MUTUAL
INSURANCE GROUPS**

The Panel

Moderator: **Jean-Jacques Bonnaud**, Eurofi, Former CEO of the GAN

Panelists: **Asmo Kalpala**, Chairman & President, Tapiola Group and President, Association Internationale des Sociétés d'Assurances Mutuelles (Amice)

Jeanne-Marie Camboly, Director of Parliamentary and Professional External Relations, Groupama, France and Co-Chair of the European Mutual Society Task Force at Amice

Robert Lilli, Deputy Chief Executive Officer, Köbe

Fabrice Pesin, Deputy Assistant Secretary, Insurance Division, Treasury, French Ministry for the Economy, Finance and Employment

Bernard Thiry, Director of International Relations, Ethias

Jean-Luc de Boissieu, Director General, Gema

Ieke van Den Burg, MEP, Committee on Economic and Monetary Affairs, European Parliament

The Debate

Jean-Jacques Bonnaud, Eurofi, said the last meeting of Eurofi at the December 2007 conference in Brussels had highlighted the gap between the economic importance of mutual insurers in Europe, which amounted for 20-40 per cent of the sector in many European countries, and EU legislation. So the session was designed to bring out the issues the sector faced, and discuss whether consumers were disadvantaged as a result.

Asmo Kalpala, Chairman & President, Tapiola Group and President, Association Internationale des Sociétés d'Assurances Mutuelles (Amice), said that while financial markets had fostered global growth, they had also accumulated uncertainty and large-scale risks. Operations based solely on the efficient allocation of capital with the goal of profit maximisation, neglecting wider social responsibility, had led to "morally risky" behaviour. Closer regulation, and better consumer education were priorities. Ownership structures were also important.

In the insurance business, portfolios were substantial, and their risks were covered by fees collected from policy-holders in advance, so customer

interest called for particular attention. The new solvency regulations created a significant difference between insurance companies founded primarily to provide quality services to customers and those focused on maximising profits for shareholders.

Mutual companies were "a natural" corporate structure for the insurance business. Within the European Union, approximately 5,000 of the 7,000 insurance companies, representing up to 30 per cent of EU premium income, were mutuals, helping balance the interests of customers and those of capital markets.

To develop, some mutuals were becoming financial conglomerates and expanding internationally, typically using limited-liability holding companies. But did this foster mutuality, and was it a "correct" use of mutual company assets? The key question, Mr Kalpala said, was: "Does the common European financial market create significant preconditions for generating pan-European structures while maintaining the mutual company form?" And the answer, he said, was "No". Ultimately, this deficiency harmed all stakeholders on the European insurance market. New structures were needed. "We should surely be able to incorporate pluralism into the structures of the European financial market, also in the large scale insurance business." Incentives were needed for forming pan-European mutual companies, he said. In the European insurance market, closer connections between ownership and customers held the promise of reducing "possible negative implications of the operations of the financial sector".

Jeanne-Marie Camboly, Director of Parliamentary and Professional External Relations, Groupama, France and Co-Chair of the European Mutual Society Task Force at Amice, said mutual insurers were "small fish in a bigger European pond". But all players today must think in terms of a European insurance market. The future of the industry lay in insurance groups, she said, especially that of mutuals, which were owned by their clients. The looming introduction of Solvency II regulations in 2012 was a strong argument for the European Union to swiftly adopt a proposed framework for the European Mutual Society (EMS). "Adoption of the EMS must coincide with the Solvency II Directive's application," Ms Camboly said. Solvency II would trigger industry concentration, she said, as companies became groups to grasp the benefits of diversification. Some companies would be forced to seek partners to comply with reinforced solvency rules.

Commercial companies keen to form cross-border groups would find their path smoothed by the European Commission directive creating the statute of Societas Europaea (SE). But there was no equivalent that would allow mutuals to optimise their organisation or facilitate the formation of groups.

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EMS would satisfy the need for a level playing field as mutuals began building cross-border ties. Covea, a leading French mutual, had teamed up with the Belgian mutual Ethias, and had called for EMS to allow it to create appropriate structures, Ms Camboly said. Existing European and national instruments were clearly inadequate, raising problems with cost-efficiency, trademark recognition, and mutual governance. None of the available statutes: SE, European Co-operative Society, Co-Insurance and European Economic Interest Groups could fill the void. Though some national laws gave the opportunity to create groups of mutuals, these were not accepted by some member states. Nor would two proposed statutes, the European Private Society and the European Foundation, provide an answer.

The European Commission was entitled to intervene in this matter, Ms Camboly said. The need was clear, and was unsatisfied by national laws. EMS was "an absolute necessity," and she called for its adoption "without further delay."

Robert Lilli, Deputy Chief Executive Officer, Köbe, a Hungarian mutual, added his voice to the call for a European mutual statute. The European sector needed the statute to allow mutuals to compete on an equal footing with joint-stock companies, he said. He personally believed the mutual business model offered clear advantages over the limited company, notably non-profit orientation, long-term focus, generating profit for members, and democracy. "Our respectable business model has to have the right to compete fairly," otherwise consumer choice would be narrowed. It was an important competition issue.

Eastern Europe needed the EMS as well, said Mr Lilli. Of the 12, mainly Eastern European states that joined the EU in 2003, only five – Estonia, Poland, Hungary, Latvia and Slovenia, had mutual companies on their insurance market. In many of the other countries, legislation did not allow mutual insurers. But "Eastern Europe needs mutuals, and new mutuals". Their absence reduced choice for citizens in Eastern Europe and prevented them grouping together to insure themselves. EMS would offer a chance to solve this problem. Yet the market had great potential: in 2006, average insurance premium income, was only 3.3 per cent of gross domestic product – a third of the 9.3 per cent in the original EU 15 states.

Bernard Thiry, Director of International Relations, Ethias, said he would first explain why Ethias had decided to join Covea. He would then detail the difficulties the partners had encountered. The ground-breaking move originated with a long-standing collaboration between Ethias, a major Belgian insurer, and GMF, a French insurer within the Covea group, Mr Thiry said. They had analysed the possibilities of reinforcing their solvability by creating financial solidarity links in the context of the Solvency II Directive. Secondly, they wanted to create synergies and to support common projects. They also wanted to "assert the dynamic presence of the social

economy" and set up "a real, pan-European mutual group," as a true mutual.

The partners had examined all possible legal statutes, both European and national, and all were inadequate to fulfil all the partners' objectives, Mr Thiry said. They could set up a common limited liability subsidiary, or create a European Economic Interest Group (EEIG) to set up auxiliary activities, but none of these existing tools allows an advanced collaboration between mutual societies while allowing mutuals to keep their mutual form. The best solution would be a European statute, perhaps modelled on the French Société de Groupe d'Assurance Mutuelle (SGAM) statute. In the absence of such a statute, Ethias and Covea were using the SGAM statute, but this required a lot of innovation, and imposed its own constraints. The Belgian supervisor CBFA had yet to accept the adoption by a Belgian group of a French status, though Mr Thiry was confident lengthy discussions would lead to approval.

This was a second-best solution because the company would have to deal with additional legal and accounting constraints. The first best solution would be to have a European instrument allowing the setting up of a European Mutual Group Society.

Jean-Luc de Boissieu, Director General, GEMA one of the major French mutual insurance professional associations, said the mutual groups faced an 'emergency' in respect of Solvency II. They featured in none of the criteria defined by the directive. "We have many mutualist groups in Europe, but they are built with other tools, such as guarantee funds, pooling of interest, mutual reinsurance..." These did not fit within the wording of Article 210 of the Solvency II Directive, he said. Discussions with the European Commission had proved fruitless. "It seems as if the Commission looks at this text as if it was the Holy Bible, and it is impossible to change it," he said. The Parliament seemed more sensitive, and the rapporteur intended to propose an amendment that would define the mutualist groups. He hoped the Parliament would adopt the amendment, obliging the Commission to follow suit.

For **Fabrice Pesin**, Deputy Assistant Secretary, Insurance Division, Treasury, French Ministry for the Economy, Finance and Employment, the biggest challenge was the cross-border consolidation of the European insurance sector. The internal market was deepening and widening, and achieving a level playing field between mutuals and joint-stock companies was indeed a matter of urgency. Solvency II was imminent and mutuals needed to be able to use consolidation to help them meet capital requirements. Solvency II would impose adjustment costs, and like joint-stock companies, mutuals would be obliged to improve risk assessment and build internal models – which could be a heavy burden for smaller societies. Diversified groups would be favoured by the regulations, which also facilitated mergers of joint stock companies.

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The European Mutual Statute had been a long-standing project, which the Commission had pulled to a halt. So states and mutuals must lobby hard to get it back on the agenda. A proposed statute had been drafted by their Association, but not yet submitted. It would open the way to consolidation and diversification. It was supported by the European Parliament and the French presidency. He urged the Commission to draw up fresh proposals.

Ieke van Den Burg, MEP, Committee on Economic and Monetary Affairs, European Parliament, said she believed she could “guarantee” attention in Parliament for these issues. She and several fellow committee members had drafted an amendment to resolve the Solvency II issues, and were hopeful of a Parliamentary majority to get it adopted. She was also hopeful that the Association proposals could form the basis for a Mutual statute but warned that it was unlikely to become law “before the end of this mandate”. She hoped, however, that it could be aligned with the introduction of Solvency II in 2012.

Ms van Den Burg highlighted comparisons between the costs of collective pensions – about two per cent, and those from companies, which could reach 15 and 20 per cent. It would be a social good, she said, to help convince newer member states of the benefits of provision by not-for-profit organisations.

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