



University of Zagreb  
Faculty of  
Economics & Business

# *Prospects for mutual insurance companies' development in CEE countries*

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*Antti Talonen, PhD (Tampere University)*

**m/i/c**  
Mutual insurance  
conference

**CEE countries**

*-new market boost?*

Sept. 19, 2019  
Zagreb

*#MutualizeInnovateCooperate*

*www.mutualsnetwork.com*

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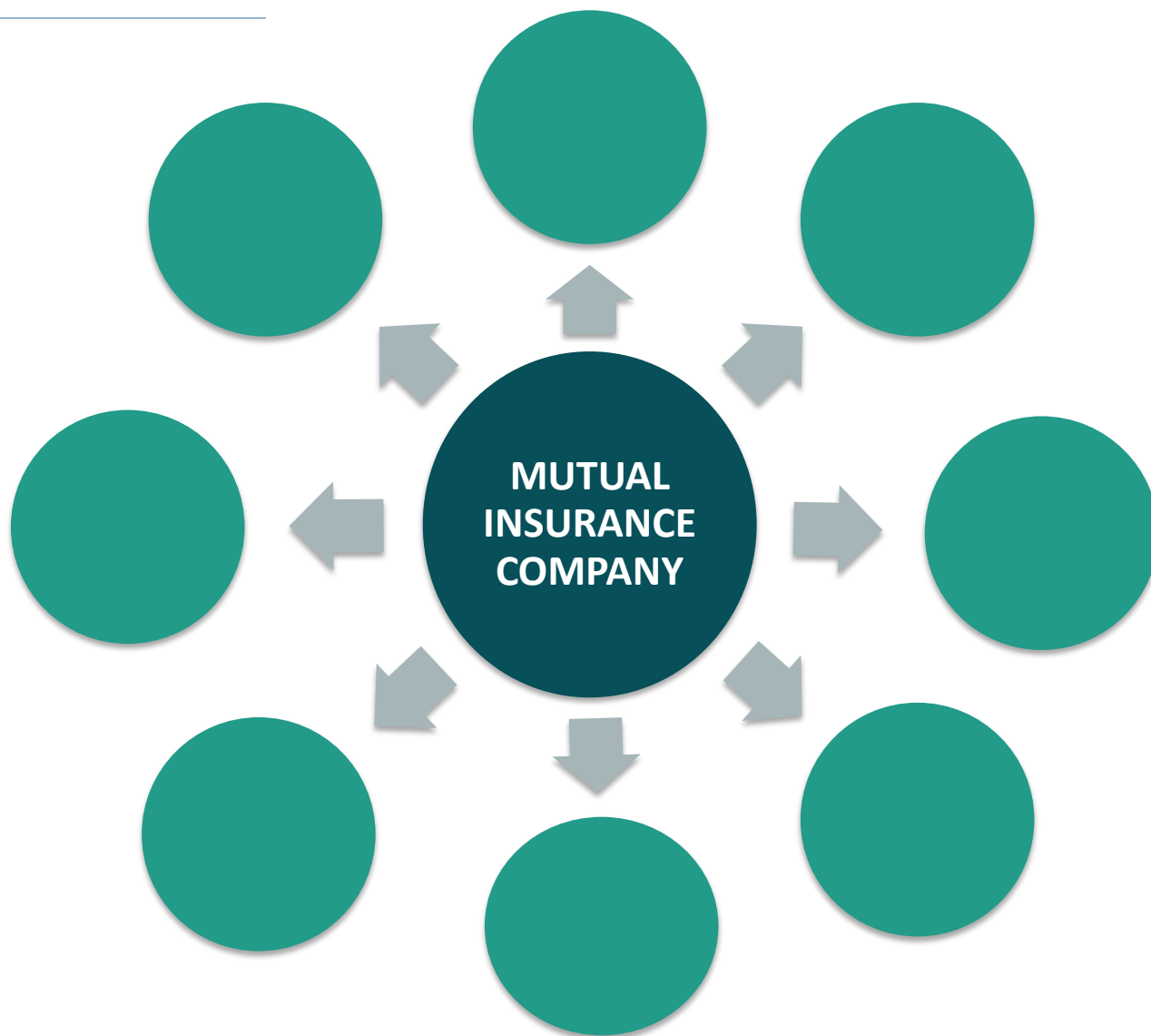
ANTTI TALONEN

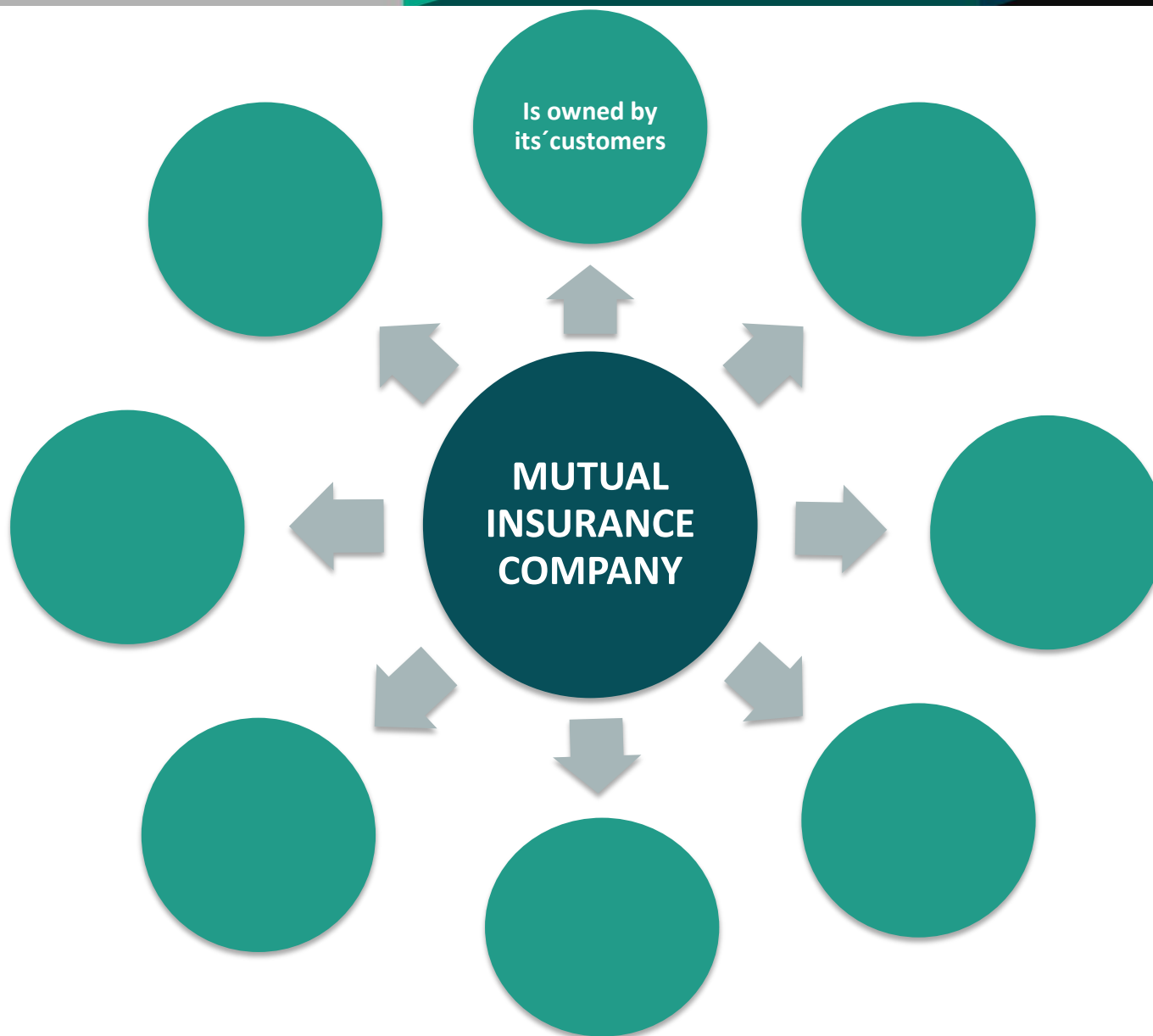
Customer Ownership  
and Mutual Insurance Companies  
Refining the role and processes  
of psychological ownership

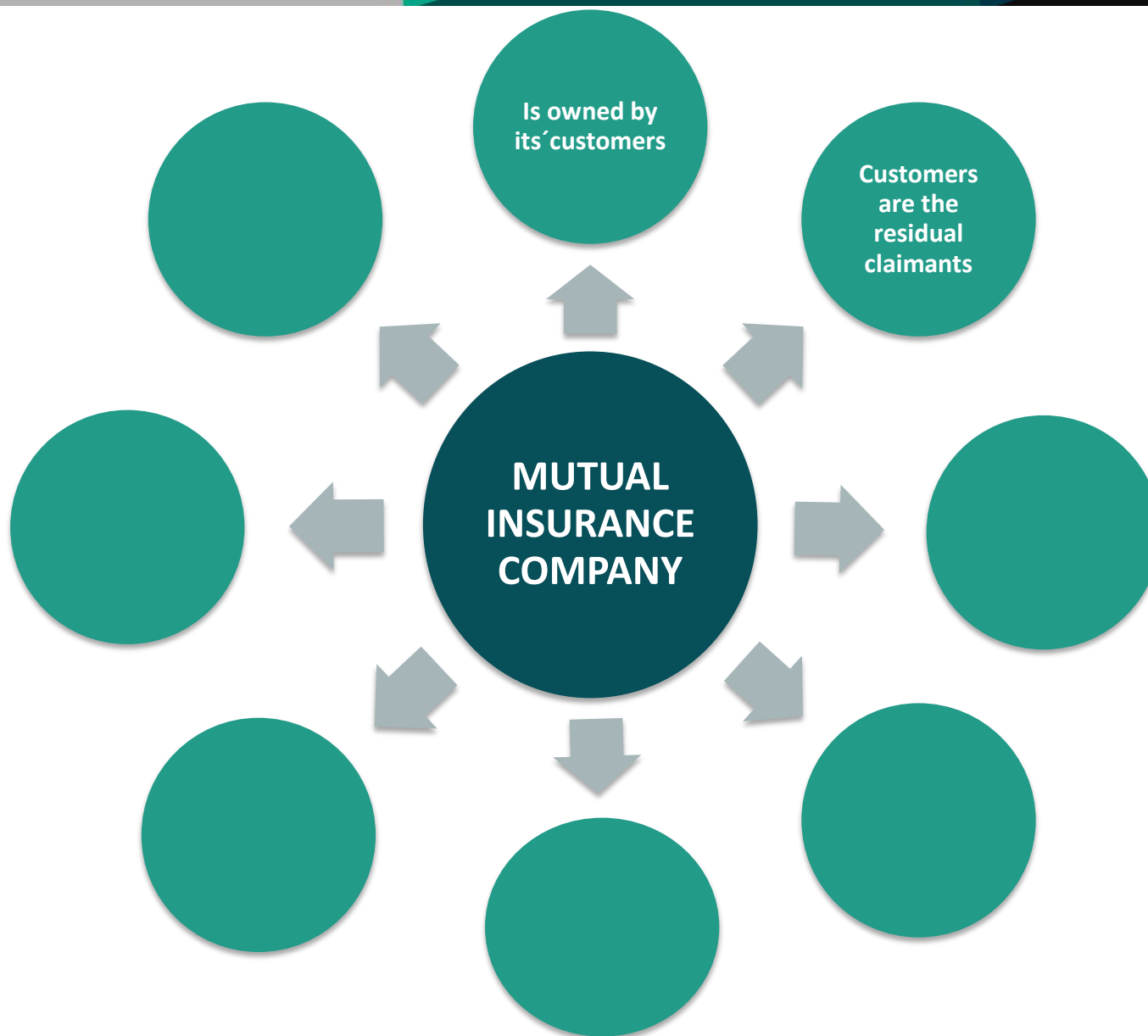
# DOCTORAL DISSERTATION ON MUTUALS

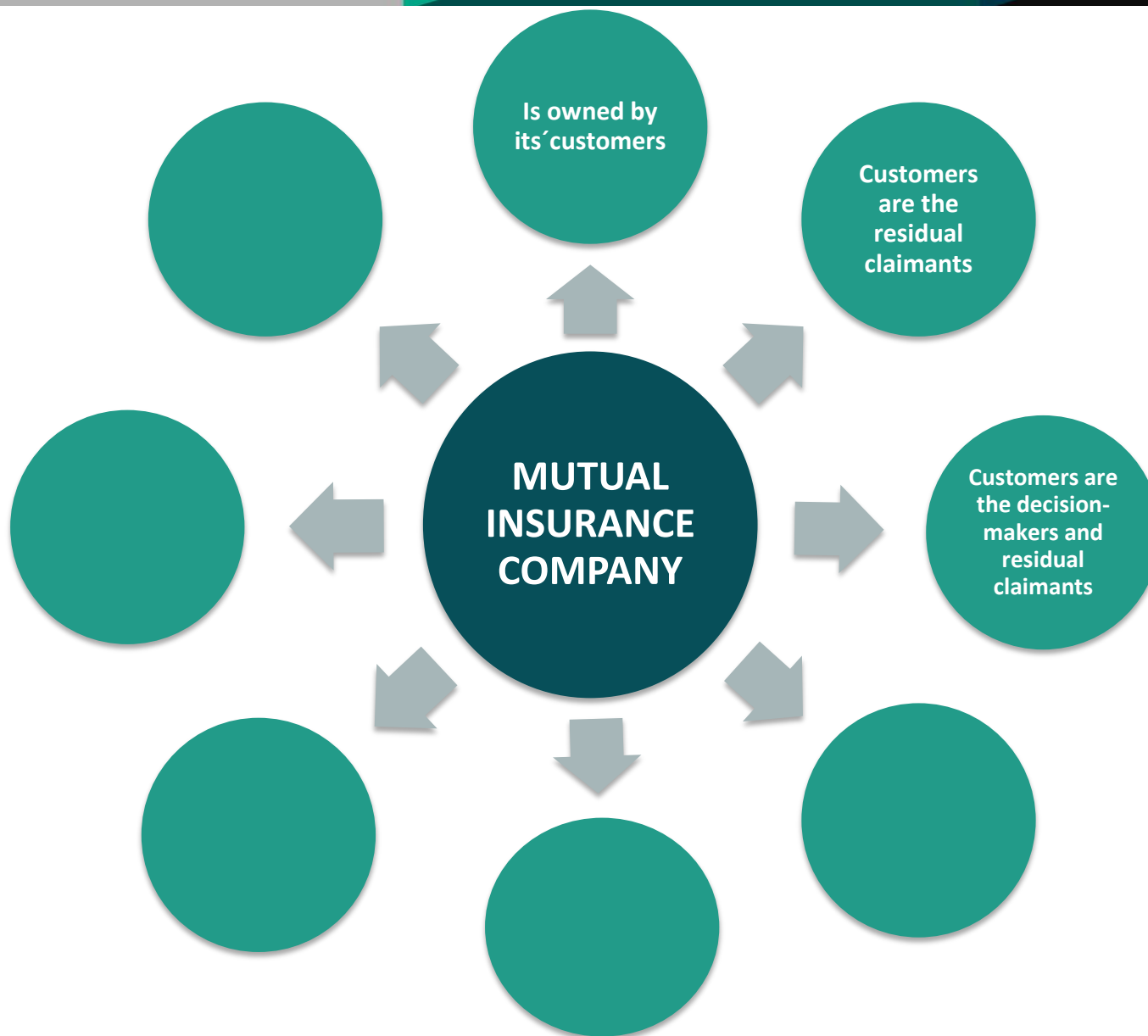
- Autumn 2018
- From insurance science
- 'Customer Ownership and Mutual Insurance Companies: Refining the Role and Processes of Psychological Ownership'
- <http://tampub.uta.fi/handle/10024/104459>

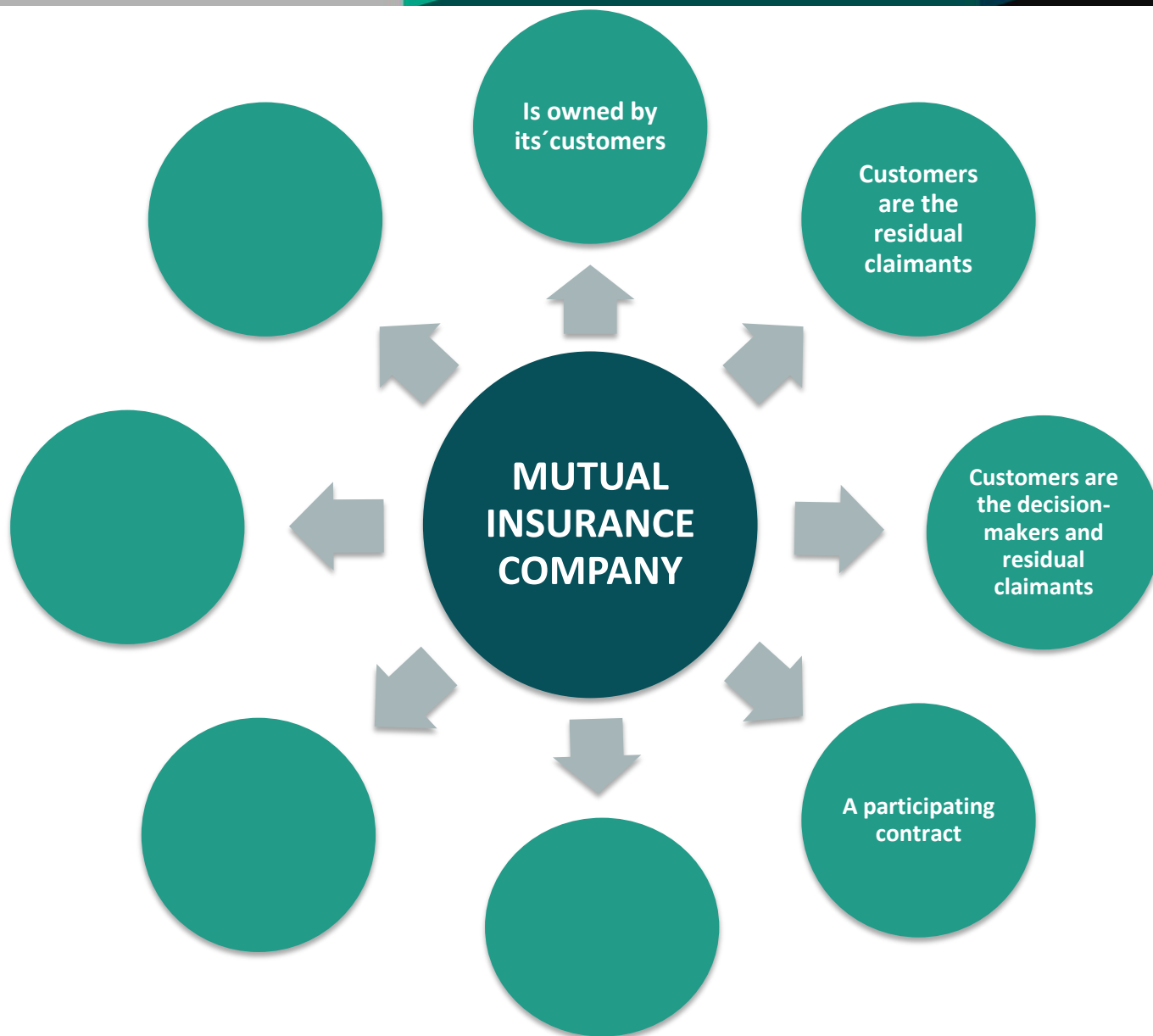
## 8 ways to define a mutual



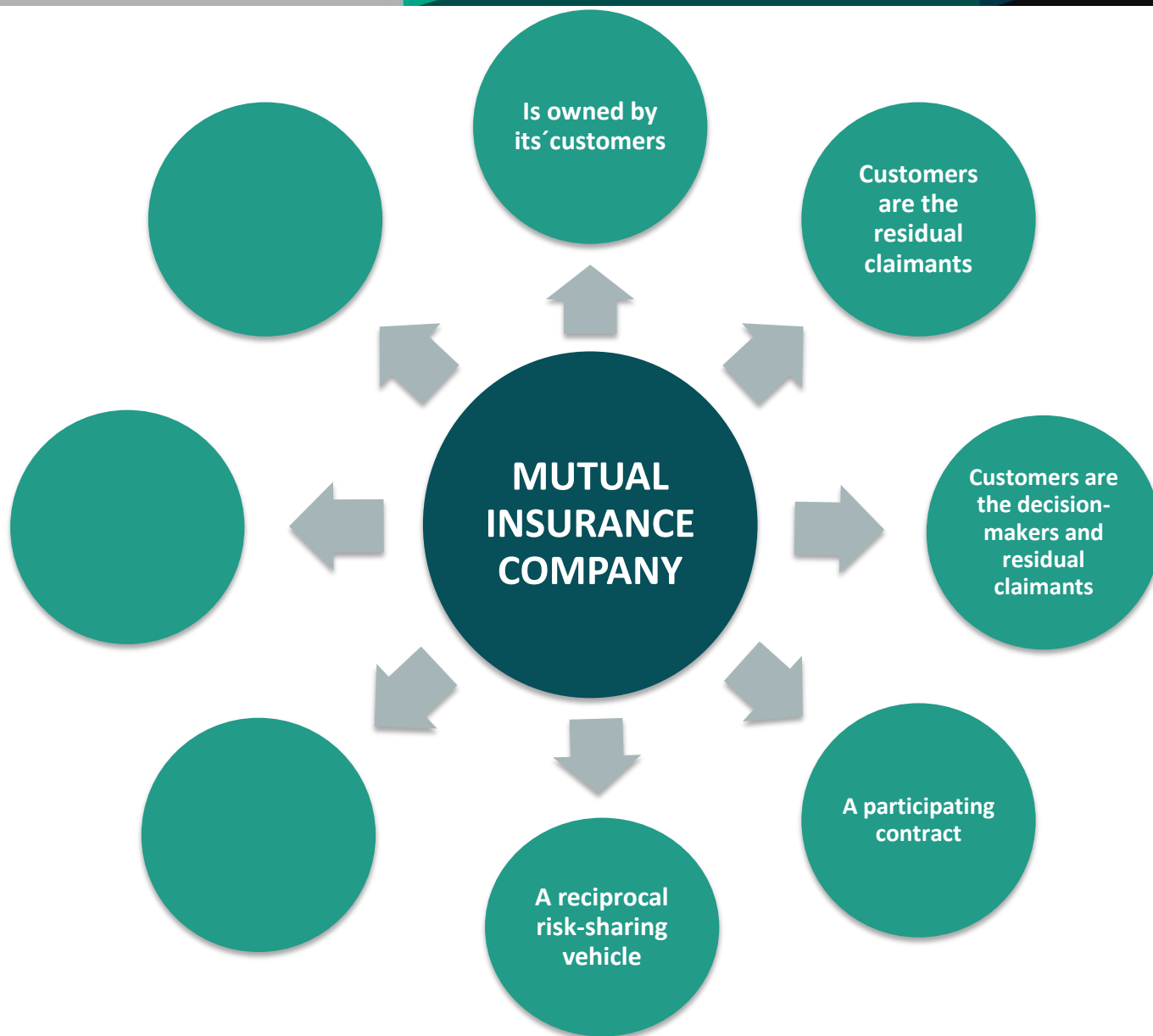


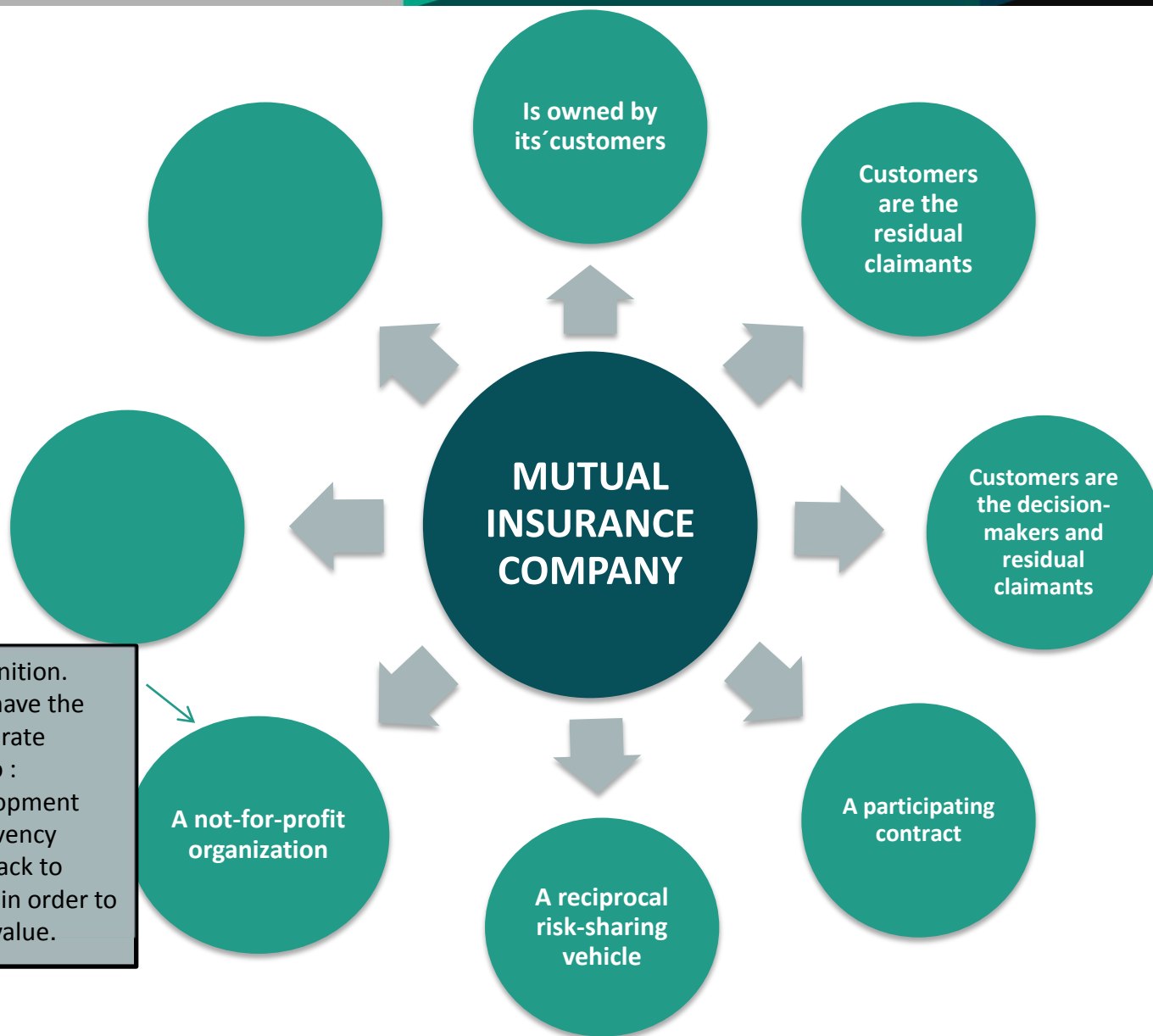








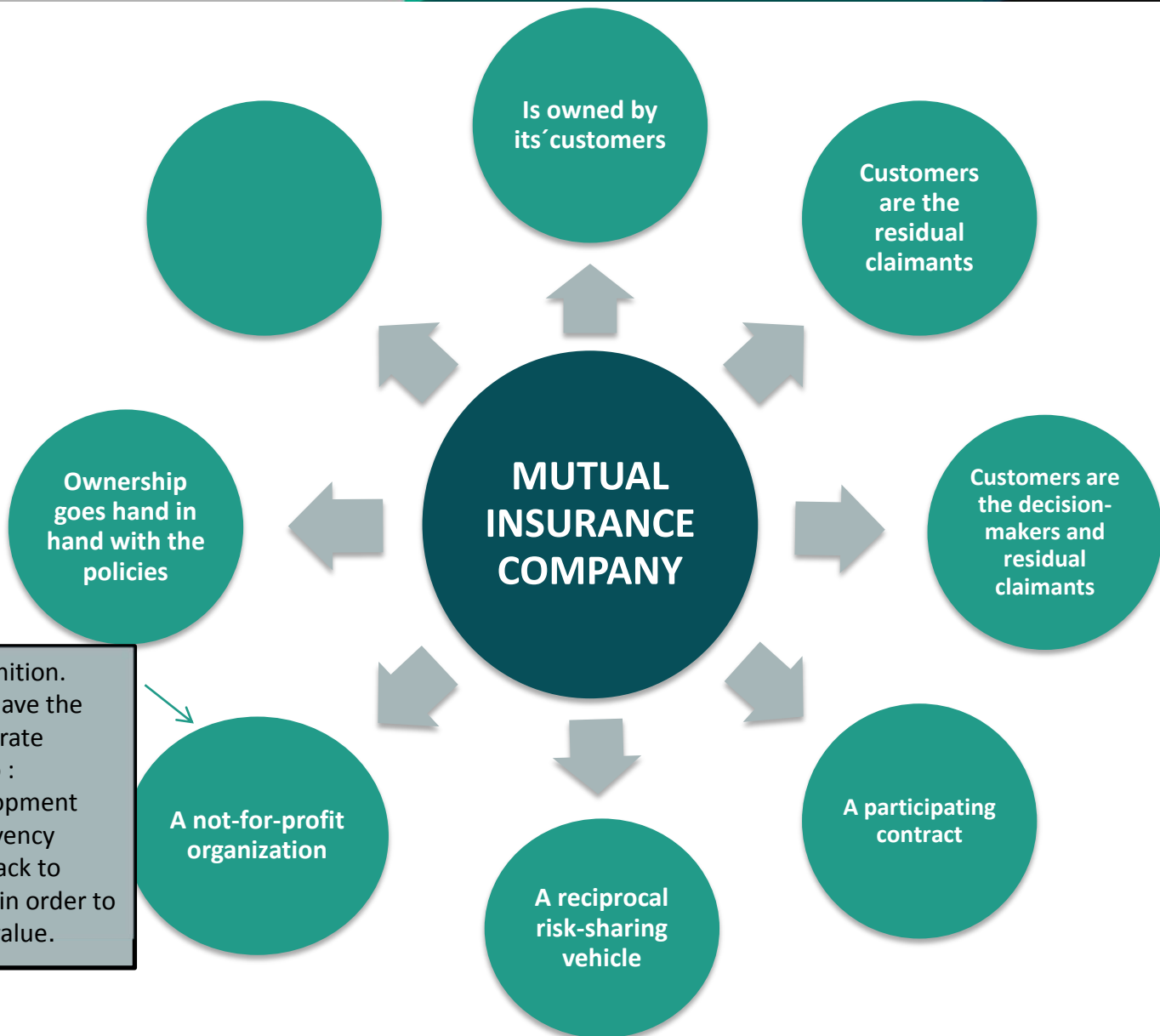




A challenging definition. Mutuels need to have the possibility to generate surplus in order to :

- Invest in development
- Strengthen solvency

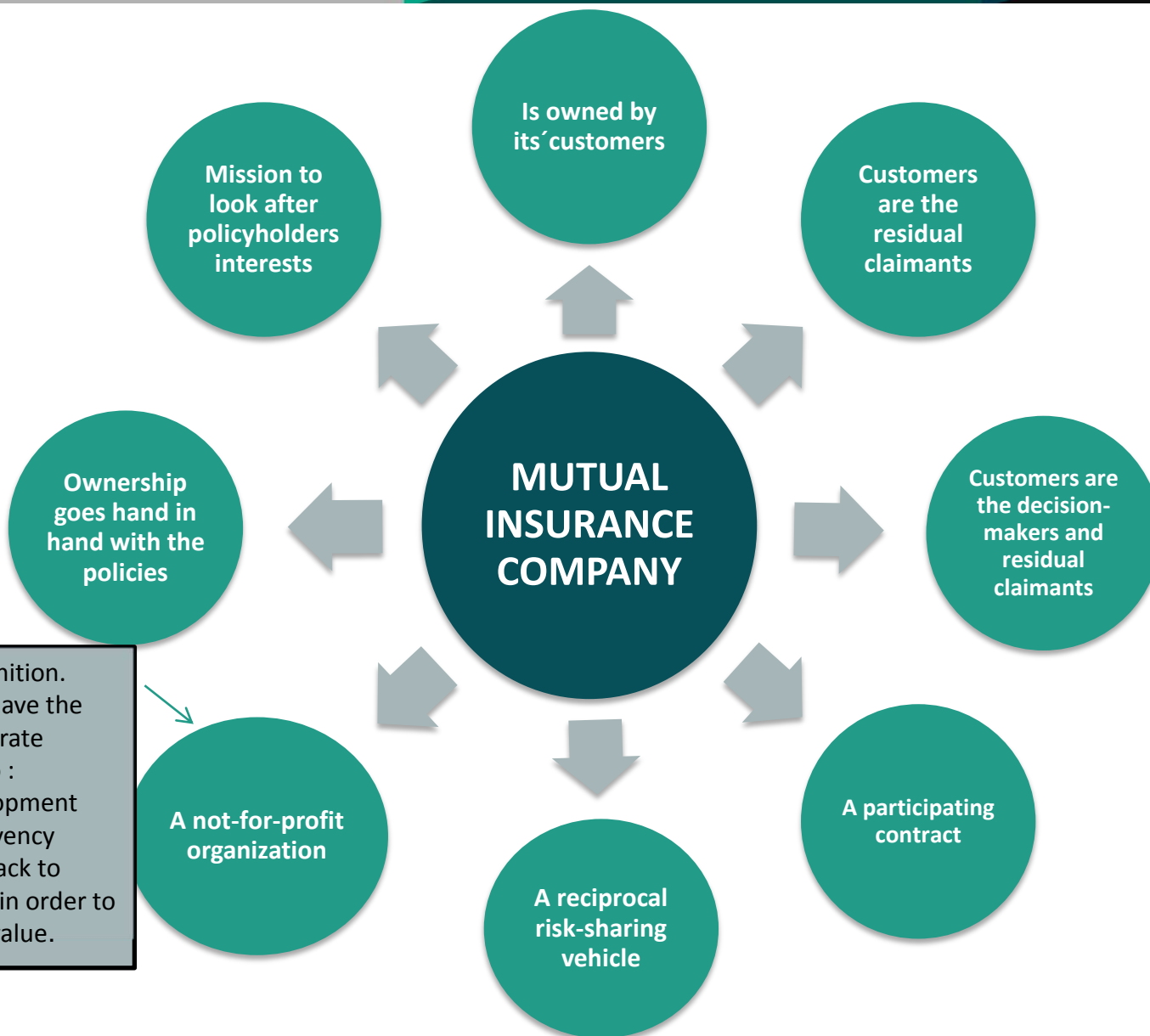
And/or return it back to customer-owners in order to create economic value.



A challenging definition. Mutuals need to have the possibility to generate surplus in order to :

- Invest in development
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And/or return it back to customer-owners in order to create economic value.



A challenging definition. Mutuels need to have the possibility to generate surplus in order to :

- Invest in development
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And/or return it back to customer-owners in order to create economic value.

“A mutual insurance company is customer-owners’ reciprocal risk-sharing vehicle structured for their benefit as consumers”.

**-Talonen, A. (2018)**

	MUTUALS	OTHER CONSUMER CO-OPERATIVES
BECOMING AN OWNER	By purchasing a policy	Applying and paying a patronage payment
CUSTOMER-OWNERS VS. REGULAR CUSTOMERS	Only customer-owners	Customer-owners and regular customers
CUSTOMER-OWNER SEGMENTS	Heterogeneous	Homogeneous
VOTING POWER	In relation to policies /paid premiums	One person / one vote
OTHER STAKEHOLDERS HOLDING POWER	Providers of guarantee capital	Limited

# Prospects for mutual insurance companies' development in CEE countries

## *Setting the scene*

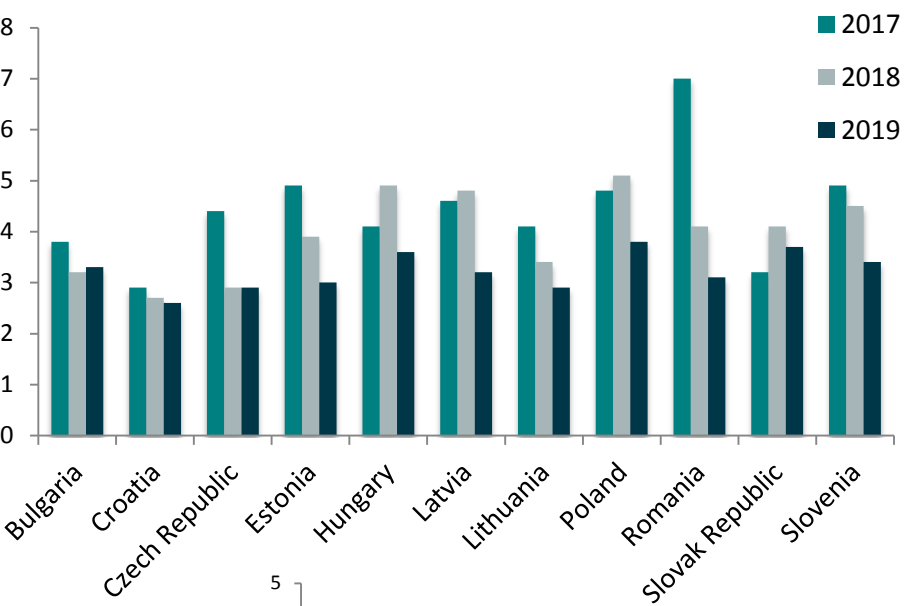
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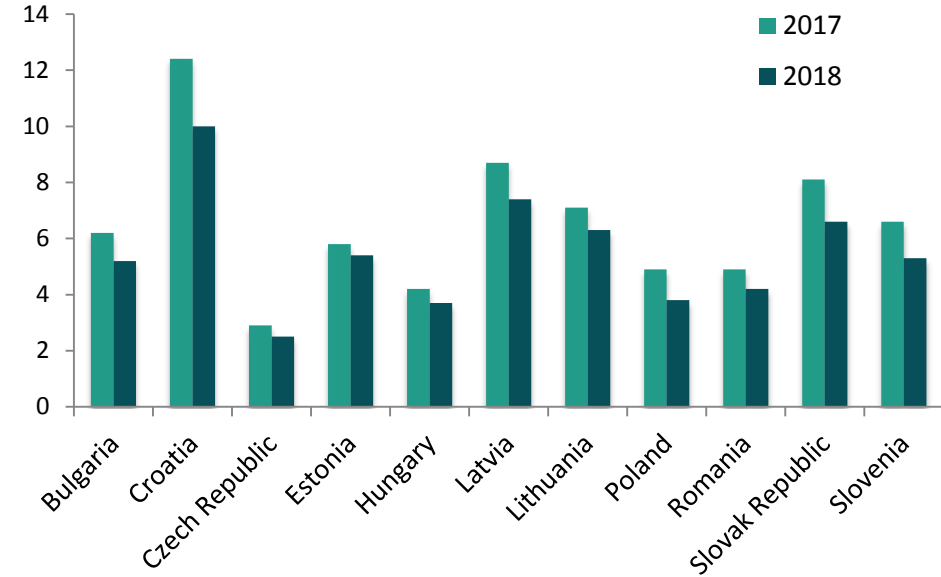
# CEE countries – Main macroeconomic indicators

(Source: IMF DataMapper)

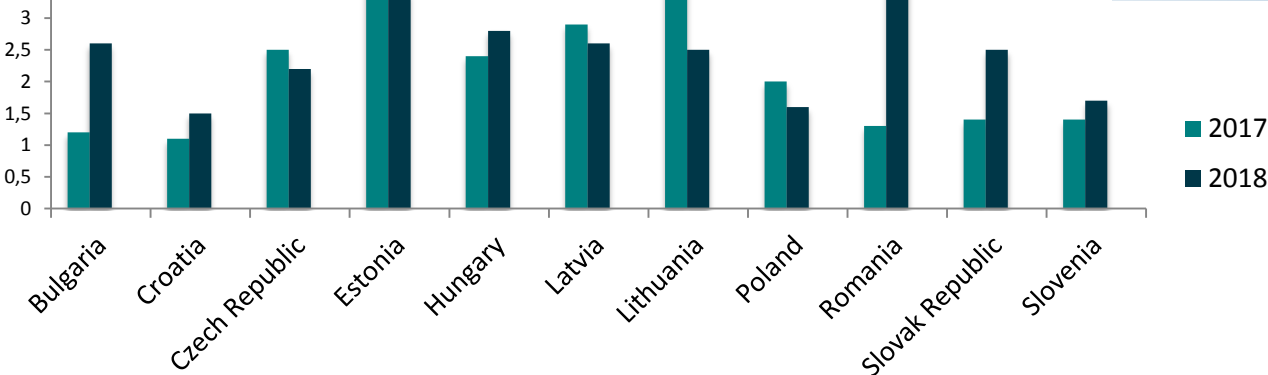
### Real GDP, % growth



### Unemployment, %



### Inflation, %

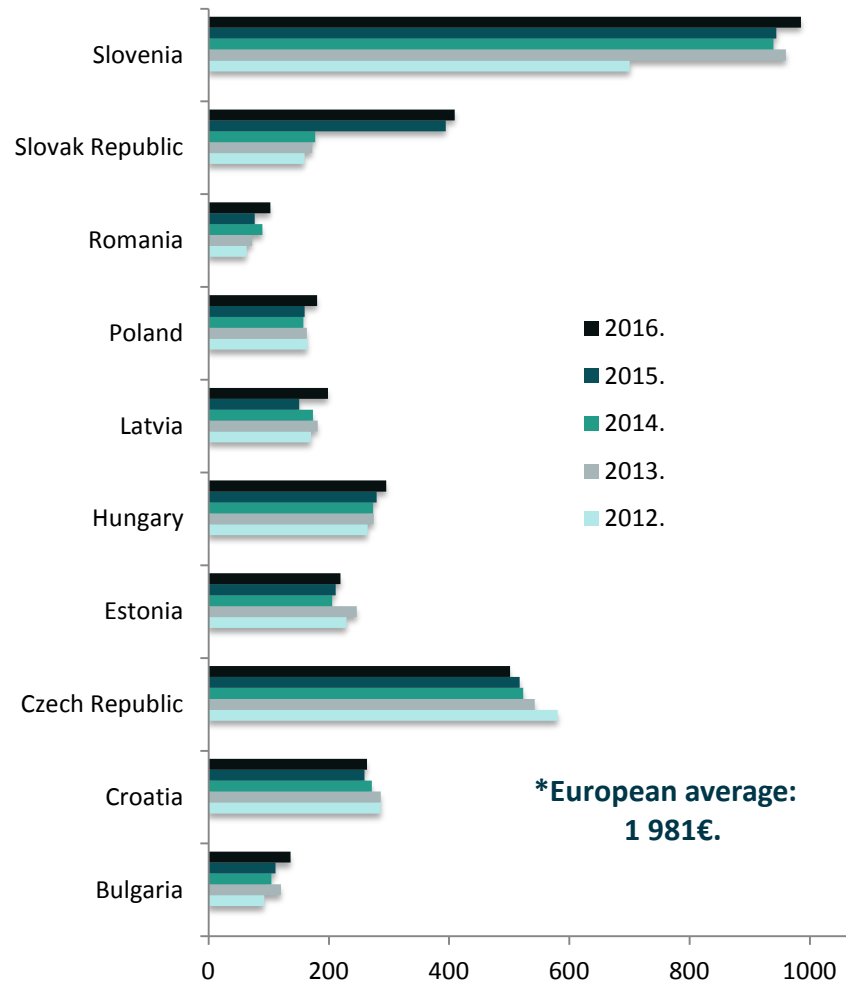




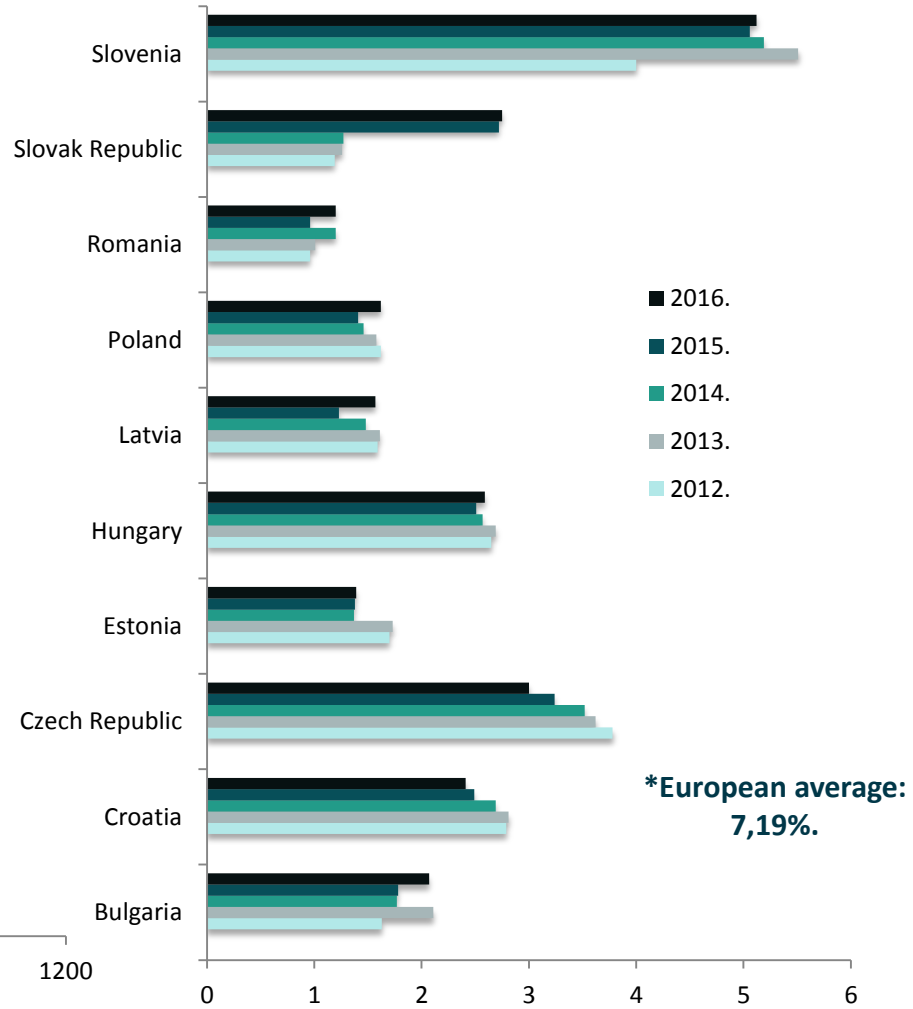
# CEE Insurance Sector Metrics (peer comparison)

(Source: Insurance Europe)

Density, (total premiums per inhabitant, in €)



Penetration (%)



# Mutual insurance companies in CEE countries – setting the scene

- Mutual insurance companies and cooperative insurers are not developed or are underdeveloped in CEE countries comparing to developed countries.
- Mutual insurance companies do not exist in Czech Republic, Estonia, Lithuania, Slovakia and Croatia.
- In the newer EU Member States formerly governed by communist regimes, mutual societies that existed before the Second World War were suppressed, and in most of these countries they have not returned since the fall of Communism
- In the newer EU Member States in Central and Eastern Europe the mutual sectors in these markets are made up of subsidiaries of multinational mutual groups from Western Europe
- Domestic mutual insurers, however, do exist in a number of Central and Eastern European markets, such as Bulgaria, Hungary, Poland and Slovenia (ICMIF & AMICE, EC).

## Mutual/cooperative premium in 2017.



■ Poland ■ Hungary ■ Slovenia

## Mutual/cooperative premium in 2007.

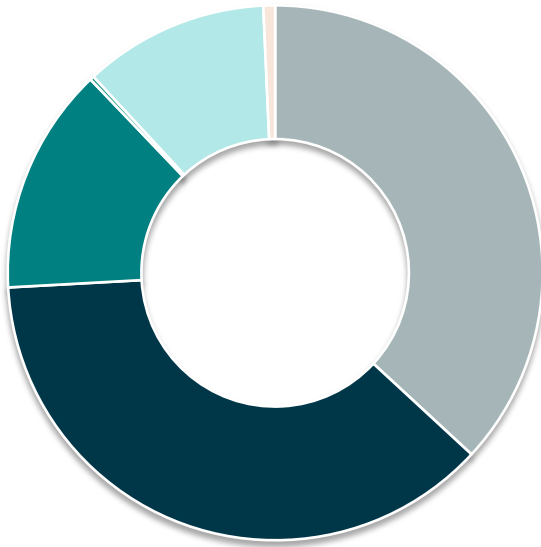


■ Poland ■ Hungary ■ Slovenia ■ Bulgaria

*Categorised by definition 1.-mutual/cooperative insurers in the legal form.*

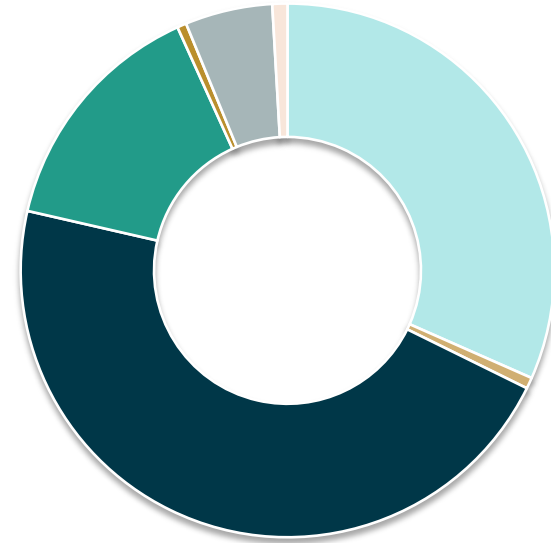
Source: ICMIF&AMICE

## Mutual/cooperative premium in 2017.



- Poland   ■ Hungary   ■ Slovenia
- Romania   ■ Bulgaria

## Mutual/cooperative premium in 2007.

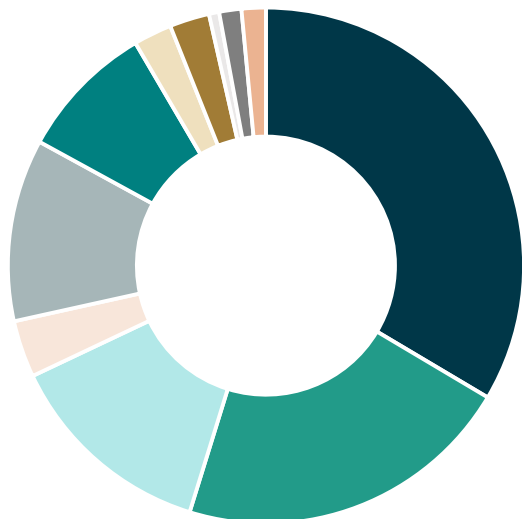


- Poland   ■ Czech Republic
- Hungary   ■ Slovenia
- Slovakia   ■ Romania
- Bulgaria

*Categorised by definitions 1+2-mutual/cooperative insurers in the legal form (definition 1), subsidiaries of mutual/cooperative insurers in the legal form (definition 2).*

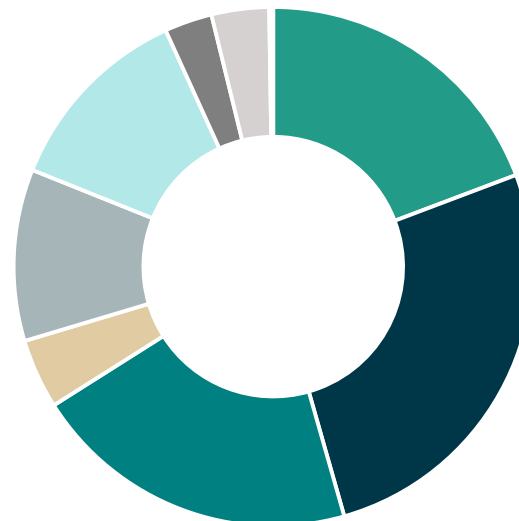
Source: ICMIF&AMICE

## Mutual/cooperative premium in 2017.



- Poland
- Czech Republic
- Hungary
- Slovenia
- Slovakia
- Romania
- Croatia
- Bulgaria
- Estonia
- Lithuania
- Latvia

## Mutual/cooperative premium in 2007.

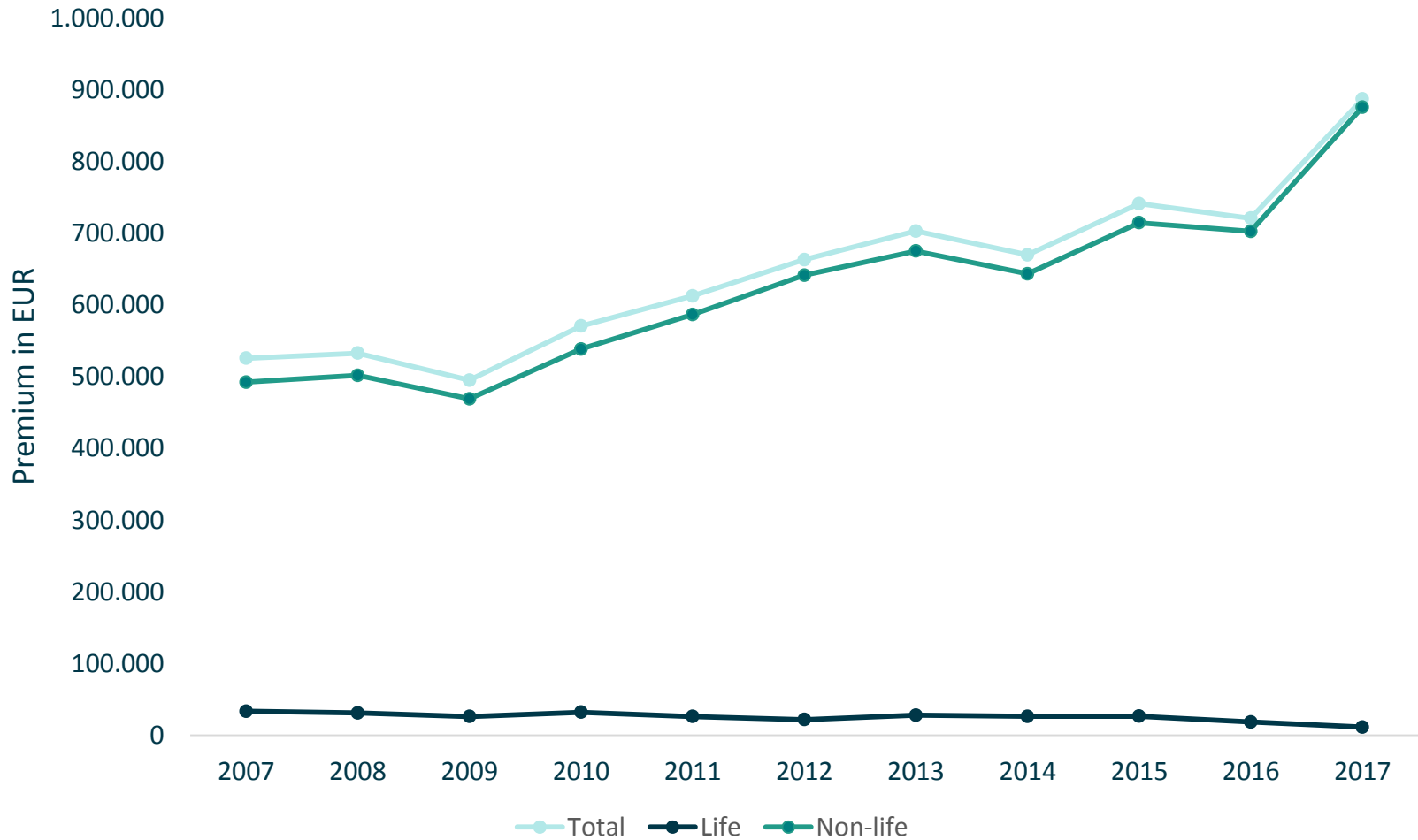


- Poland
- Czech Republic
- Hungary
- Slovenia
- Slovakia
- Romania
- Croatia
- Bulgaria

*Categorised by definitions 1+2+3-mutual/cooperative insurers in the legal form (definition 1), subsidiaries of mutual/cooperative insurers in the legal form (definition 2), mutual/cooperative-type insurers (definition 3).*

Source: ICMIF&AMICE

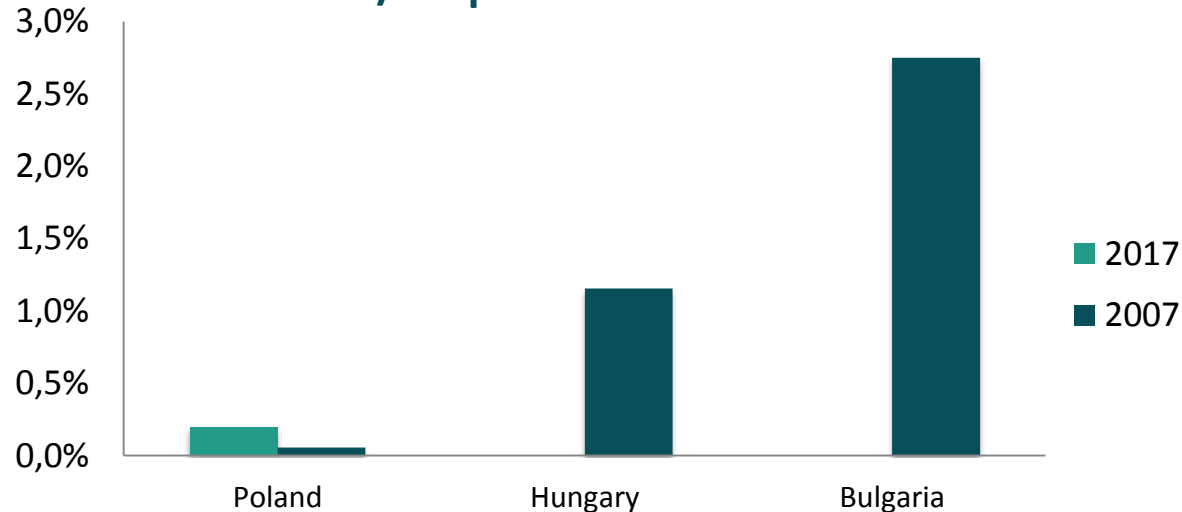
## Mutual/cooperative premium in CEE



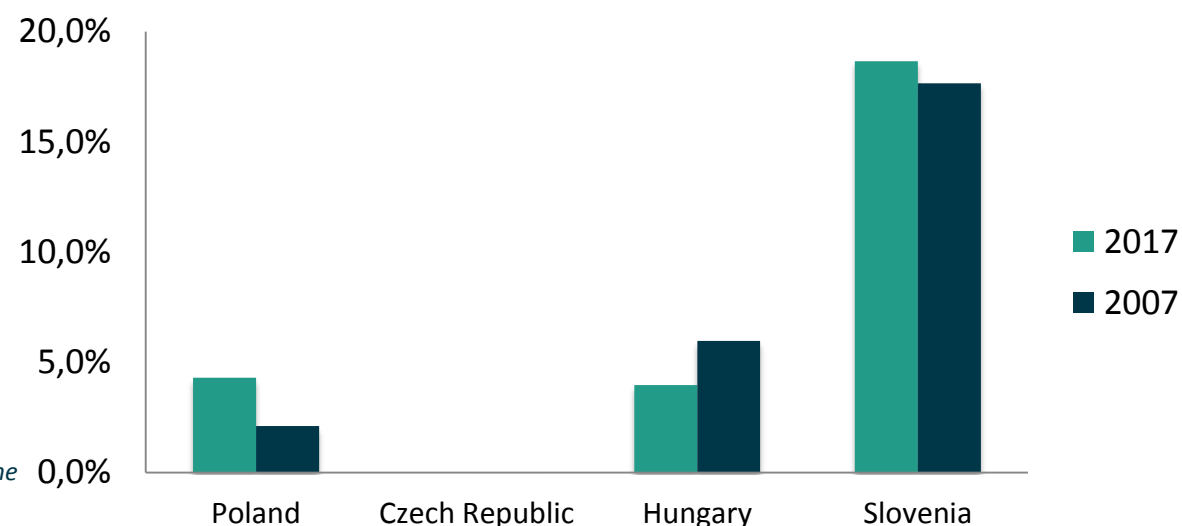
*Categorised by definition 1.-mutual/cooperative insurers in the legal form.*

*Source: ICMIF&AMICE*

### Mutual/cooperative life market share



### Mutual/cooperative non-life market share



*Categorised by definition 1.- mutual/cooperative insurers in the legal form.*



Mutualize, innovate, cooperate

Source: ICMIF&AMICE

Sept. 2019

CEE countries – new market boost?

Zagreb

# Prospects for mutual insurance companies' development in CEE countries

*Results of quantitative research - expert survey*



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**Croatian Insurance Bureau**

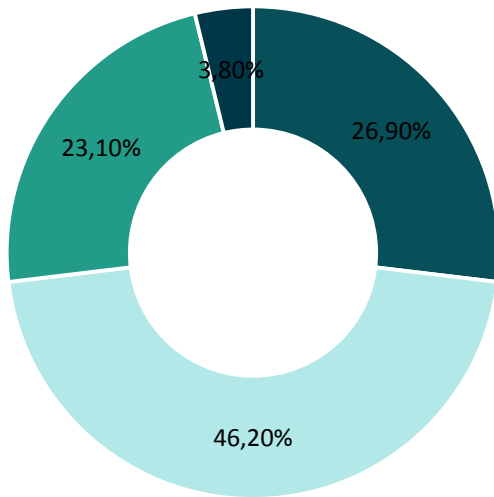
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## General characteristics of survey participants



### Working experience:

- Less than 10 years
- Between 10 and 25 years
- Between 26 and 35 years
- More than 36 years

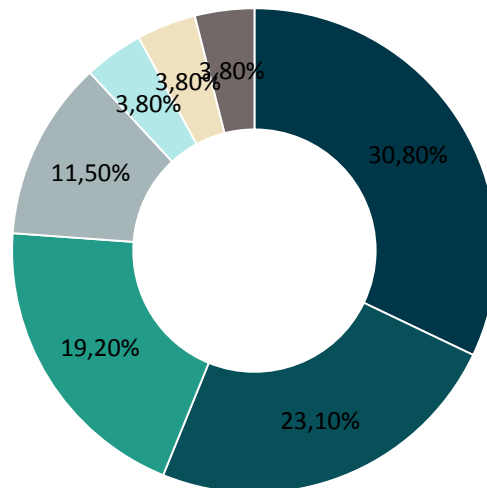
### Educational field:

Economics in general (38,5%),

Finance and accounting (30,8%),

Law (15,4%).

### Current work position:



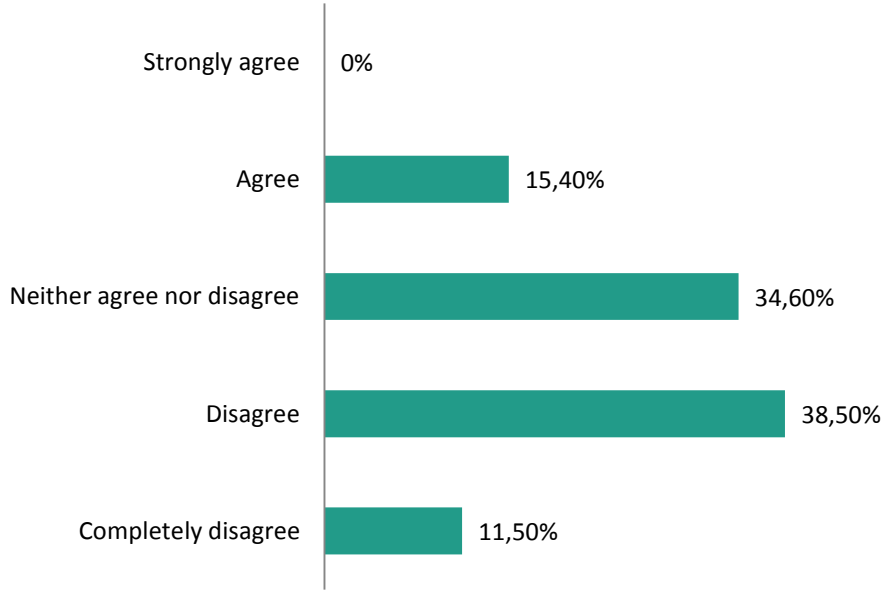
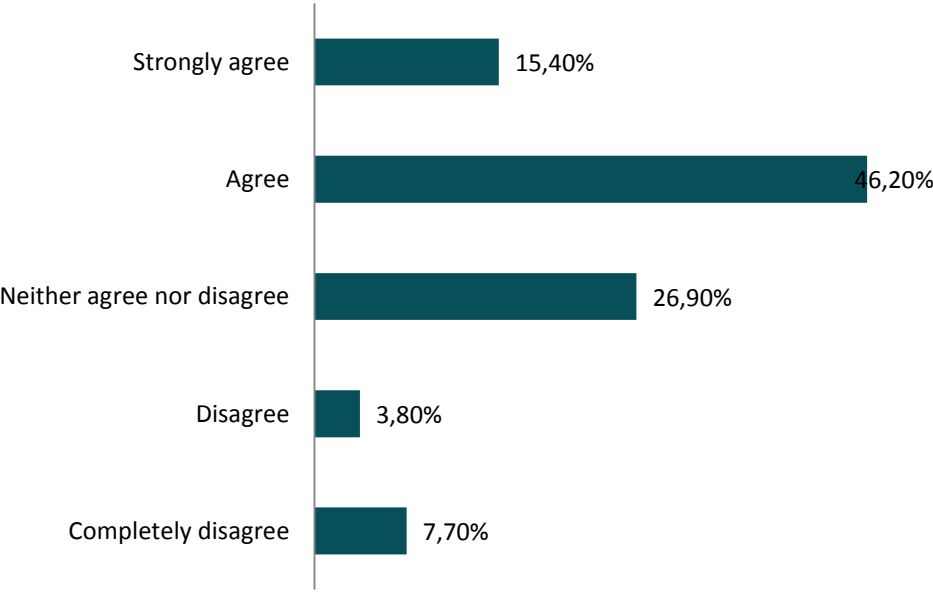
- Expert
- Middle management
- Board member
- Executive director
- Intern
- University professor and licenced actuary
- Trainee

# General attitudes towards mutual insurance business model

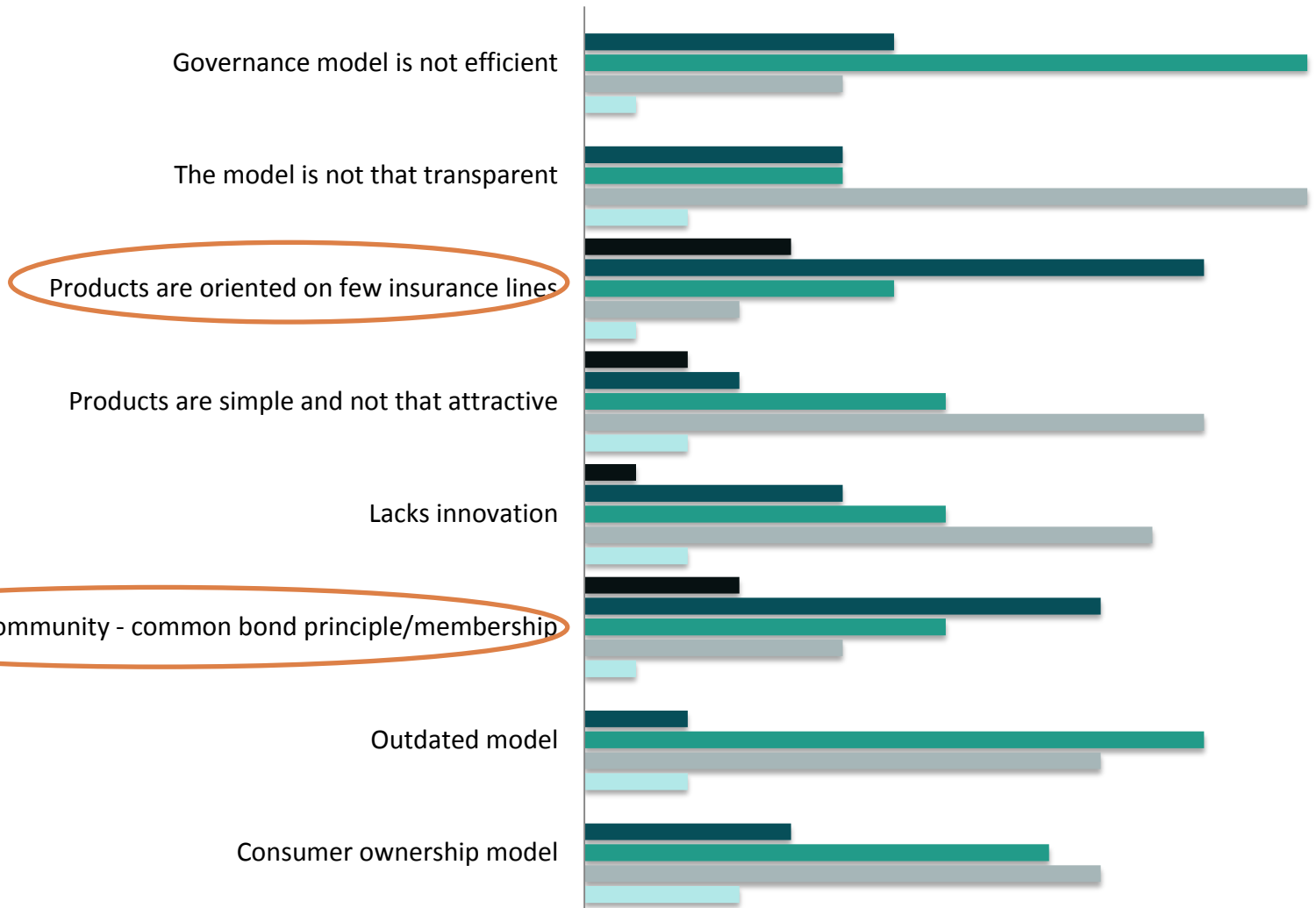
**“Familiar with the mutual insurance companies.” – 57,7%.**

Mutual insurance companies are more resilient than stock/investor-owned insurance companies.

I feel that consumer rights are better protected in stock/investor-owned insurance companies.



## Key disadvantages of mutual insurance companies



Strongly agree
  Agree
  Neither agree nor disagree
  Disagree
  Completely disagree

# Mutual insurance model would be more successful if the distribution models are focused on:

Multi-line distribution channels

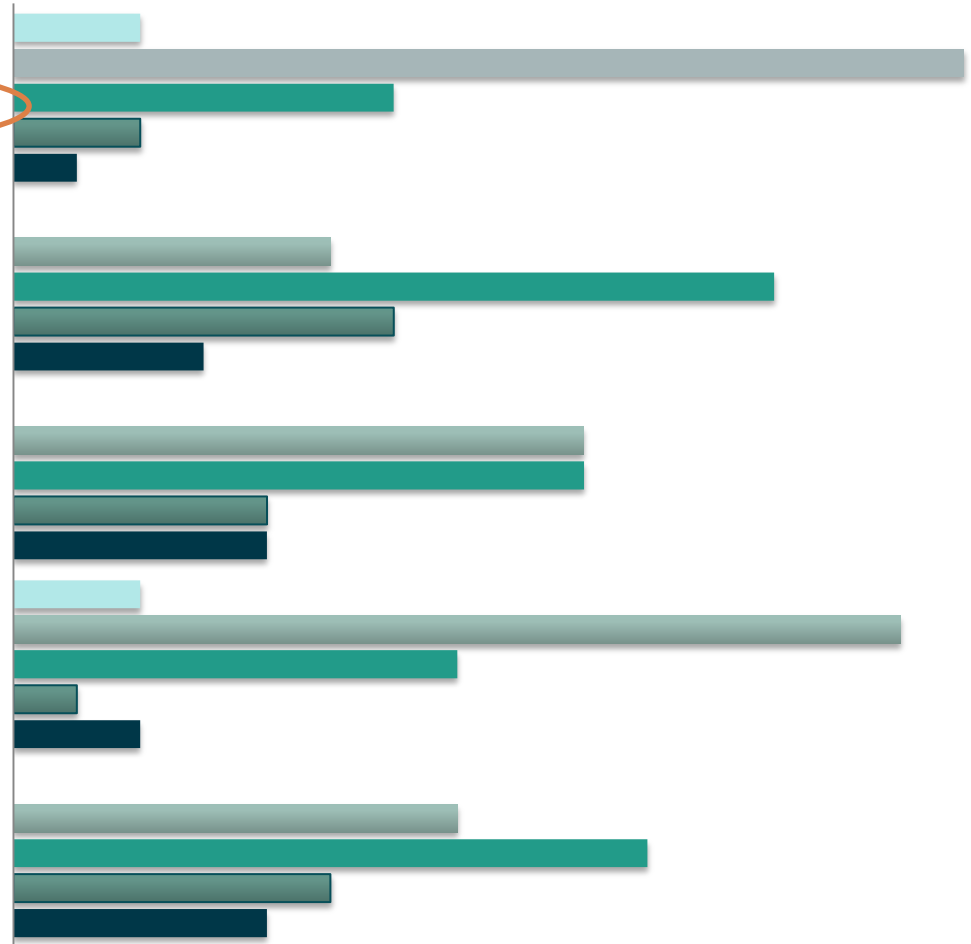
Focused distribution among members of trade unions, occupational organisations, etc.

Tied agencies

Internet distribution and social networks

Insurance agents

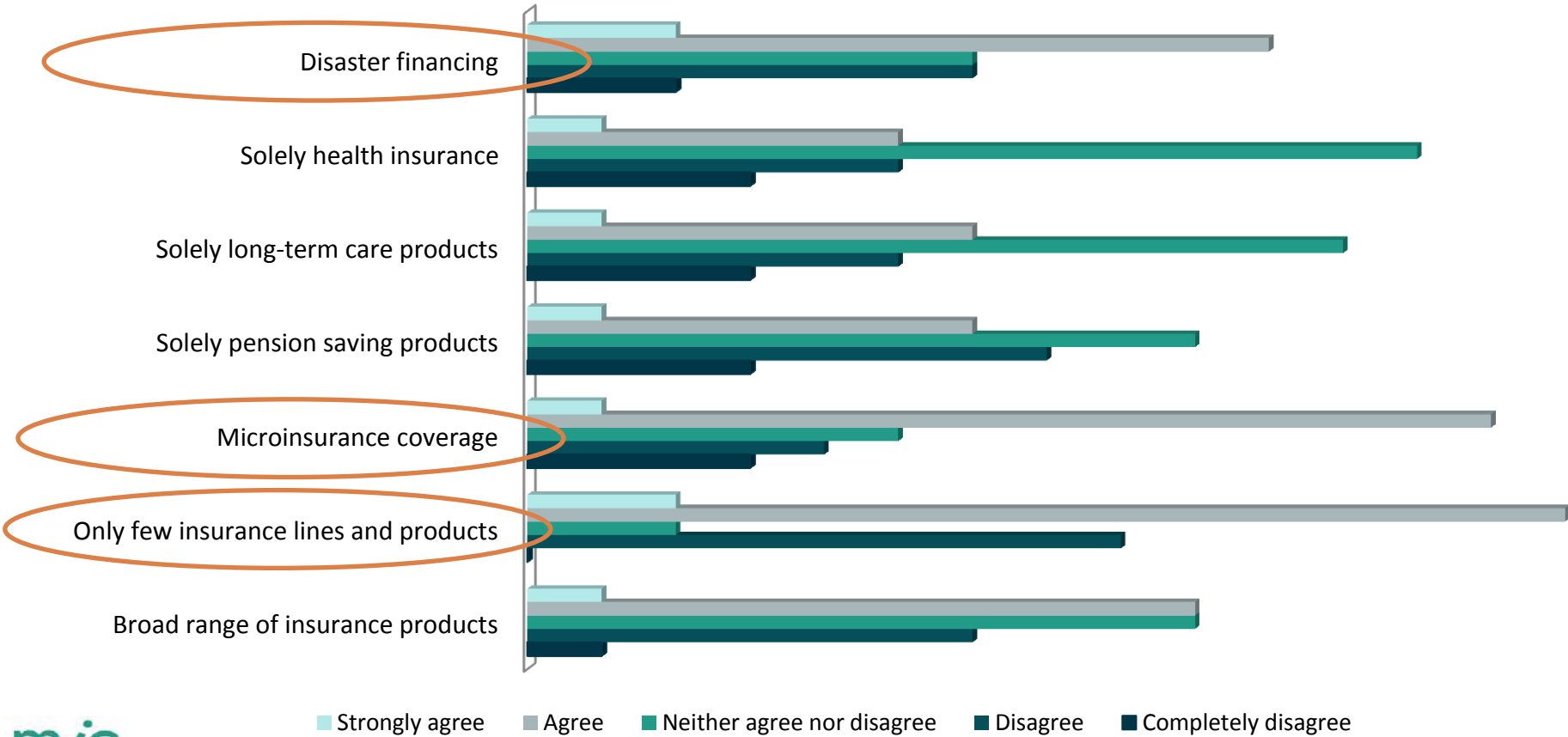
Strongly agree    Agree    Neither agree nor disagree    Disagree    Completely disagree



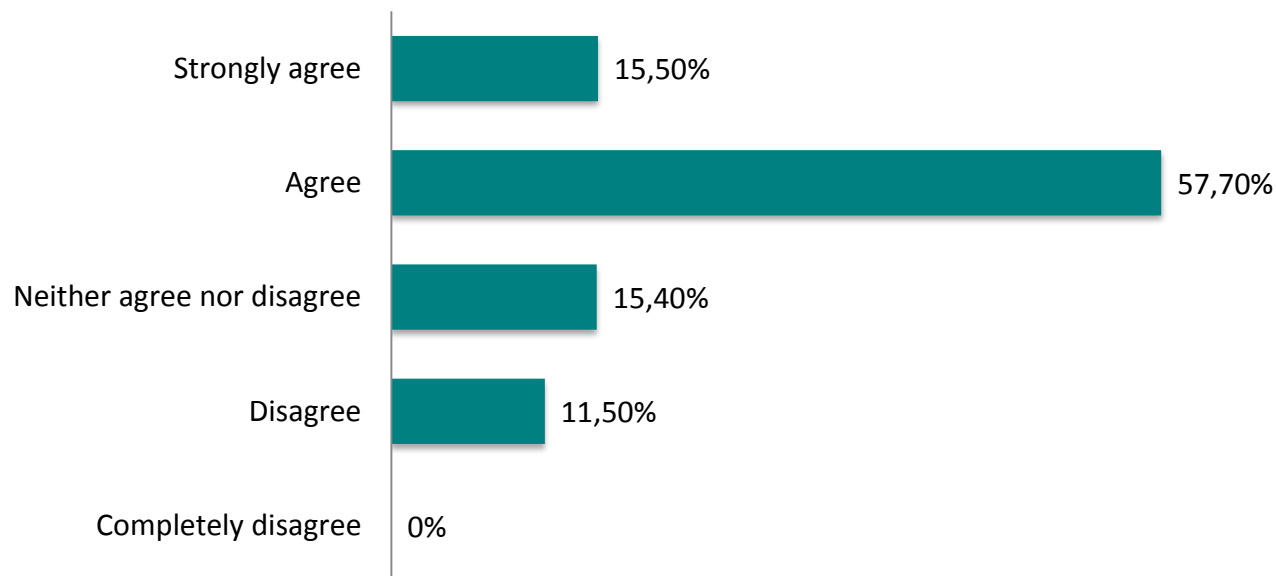
About **60%** of participants agree stock/investor-owned insurance companies are **more innovative than mutual insurers!**

More than **90%** thinks that the trend of **digitalisation** and use of **IoT** is an **advantage for mutual insurance business model!**

### Products that should be provided by the mutual insurers



## Solvency II regulatory framework is too complicated for mutual insurance companies

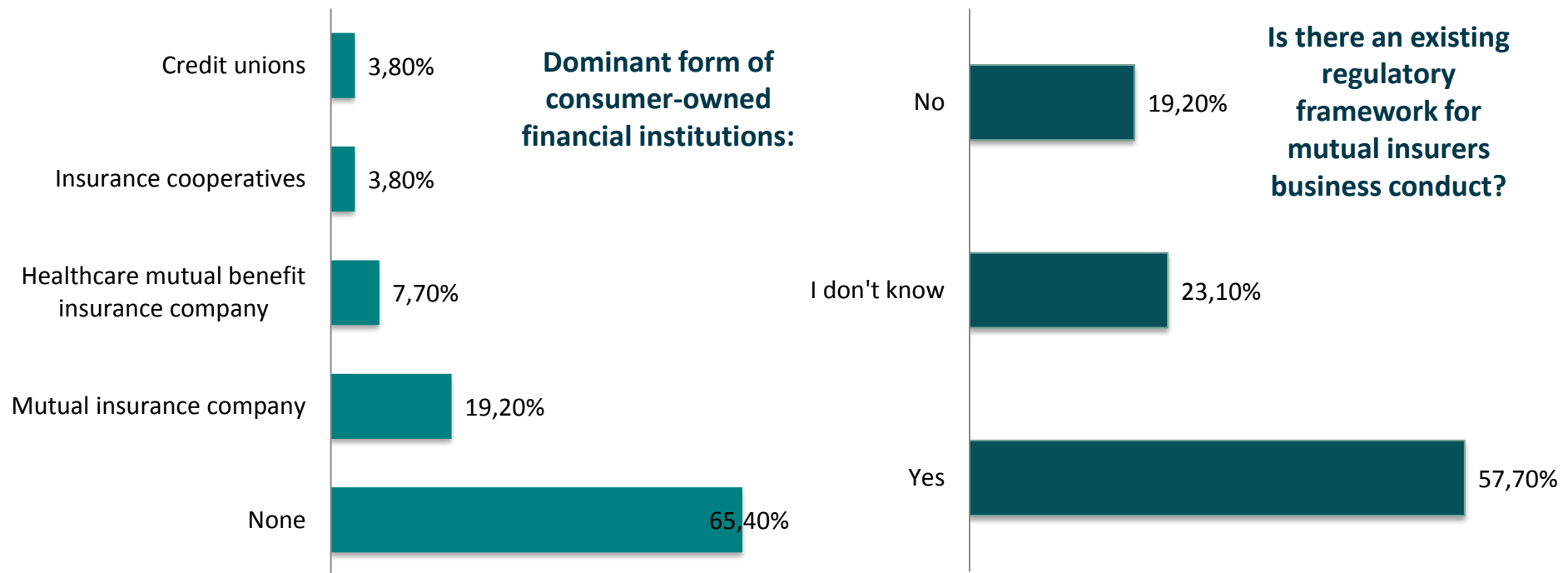


Almost **50%** agrees proportionality principle in regulatory compliance should be emphasized in the case of mutual insurance companies.

## Specific national insurance market questions

**42%** agrees the sector of **social economy** in their country is **not important or represented** at all, while **38%** says it **is present but not that important**.

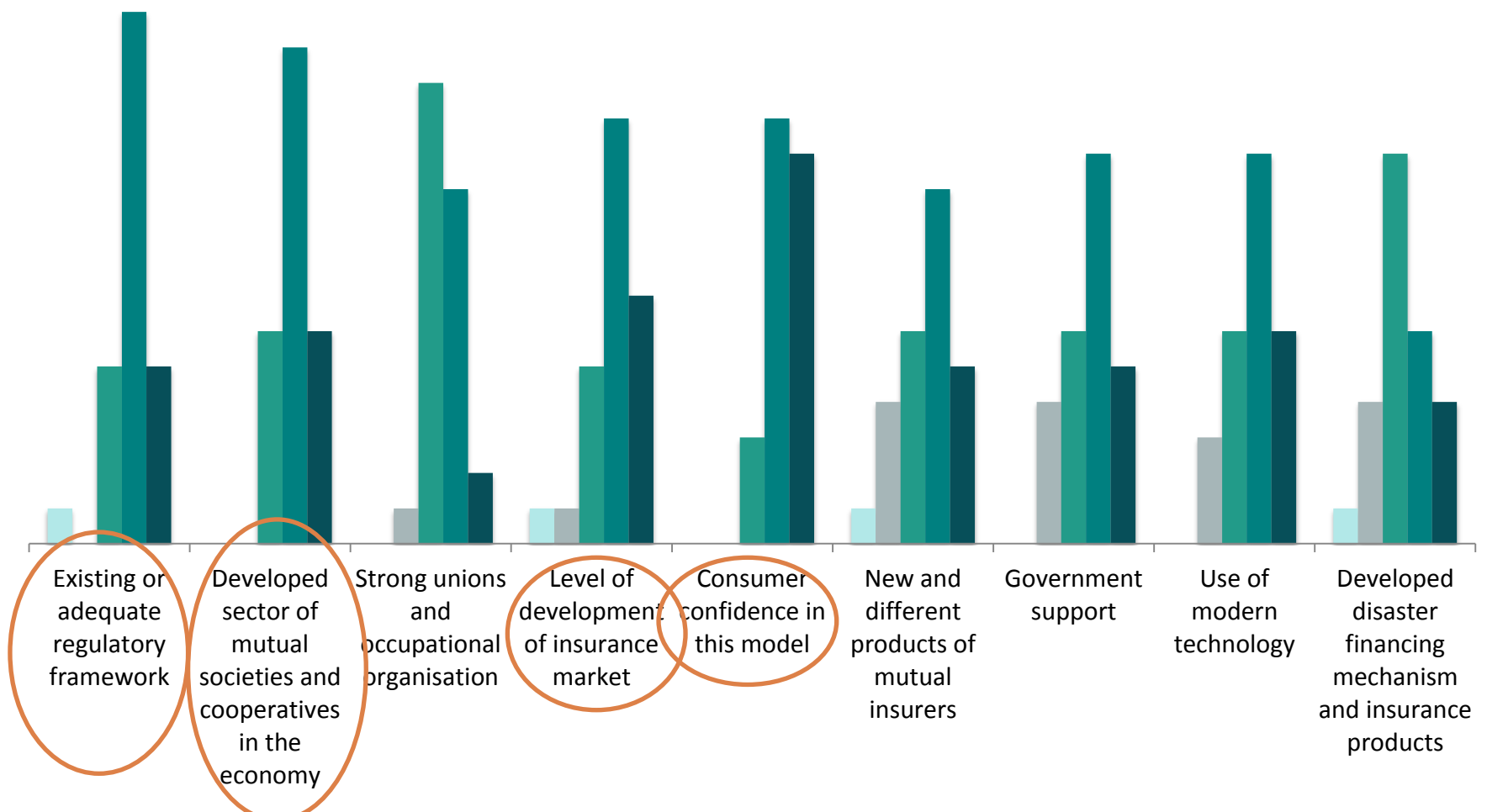
More than **75%** agrees that sector of cooperative banks, mutual savings banks or credit unions in their country is **not important or represented at all**.



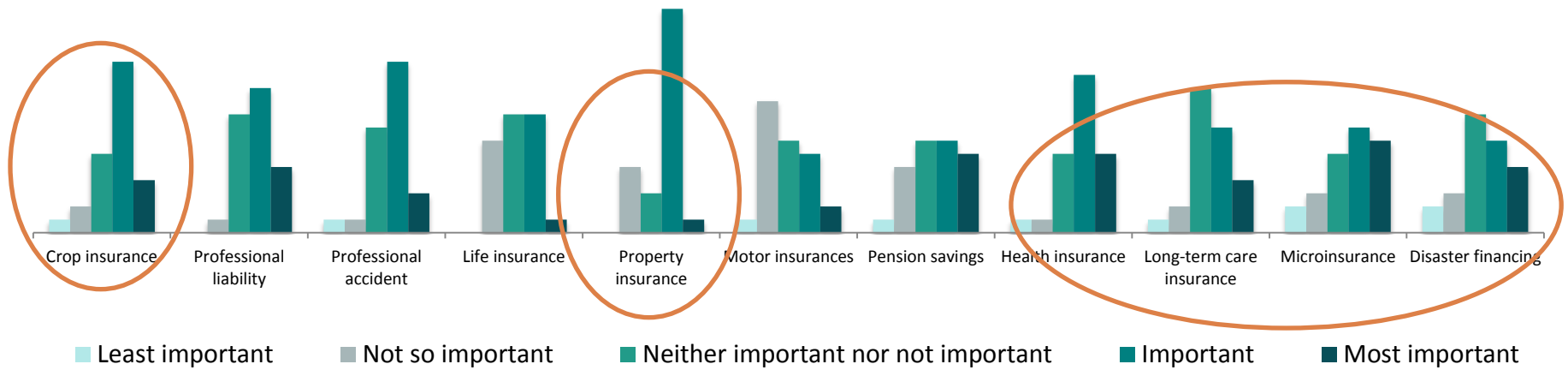


# Key precondition for boosting the development of mutual insurance companies

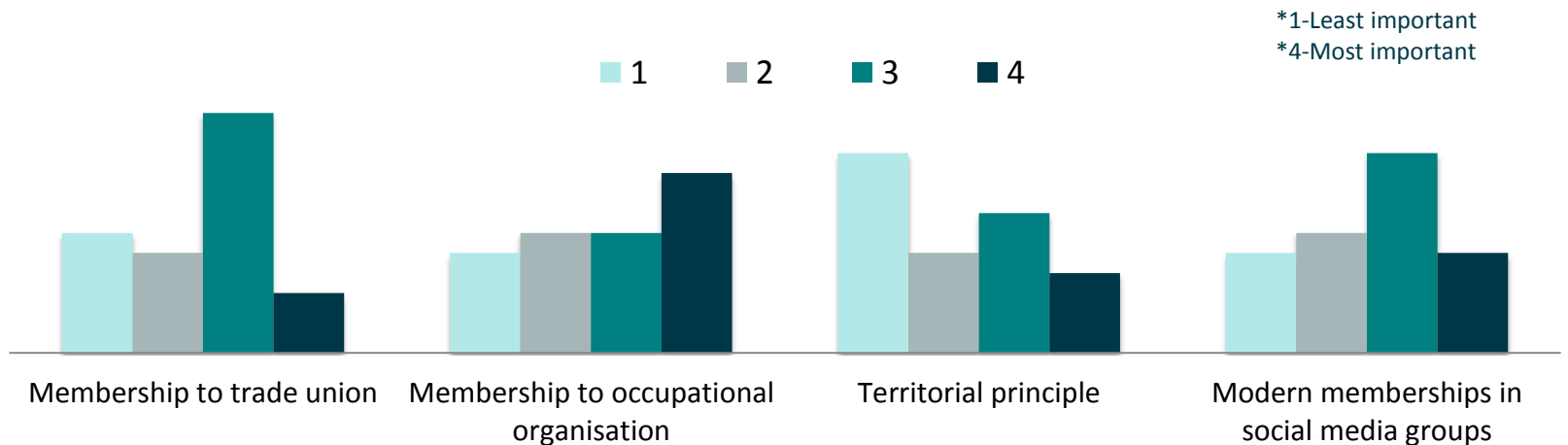
■ Least important   
 ■ Not so important   
 ■ Neither important nor not important   
 ■ Important   
 ■ Most important



## Market potential for mutual insurance companies



## Common bond principle/membership mostly applicable to mutual insurance companies

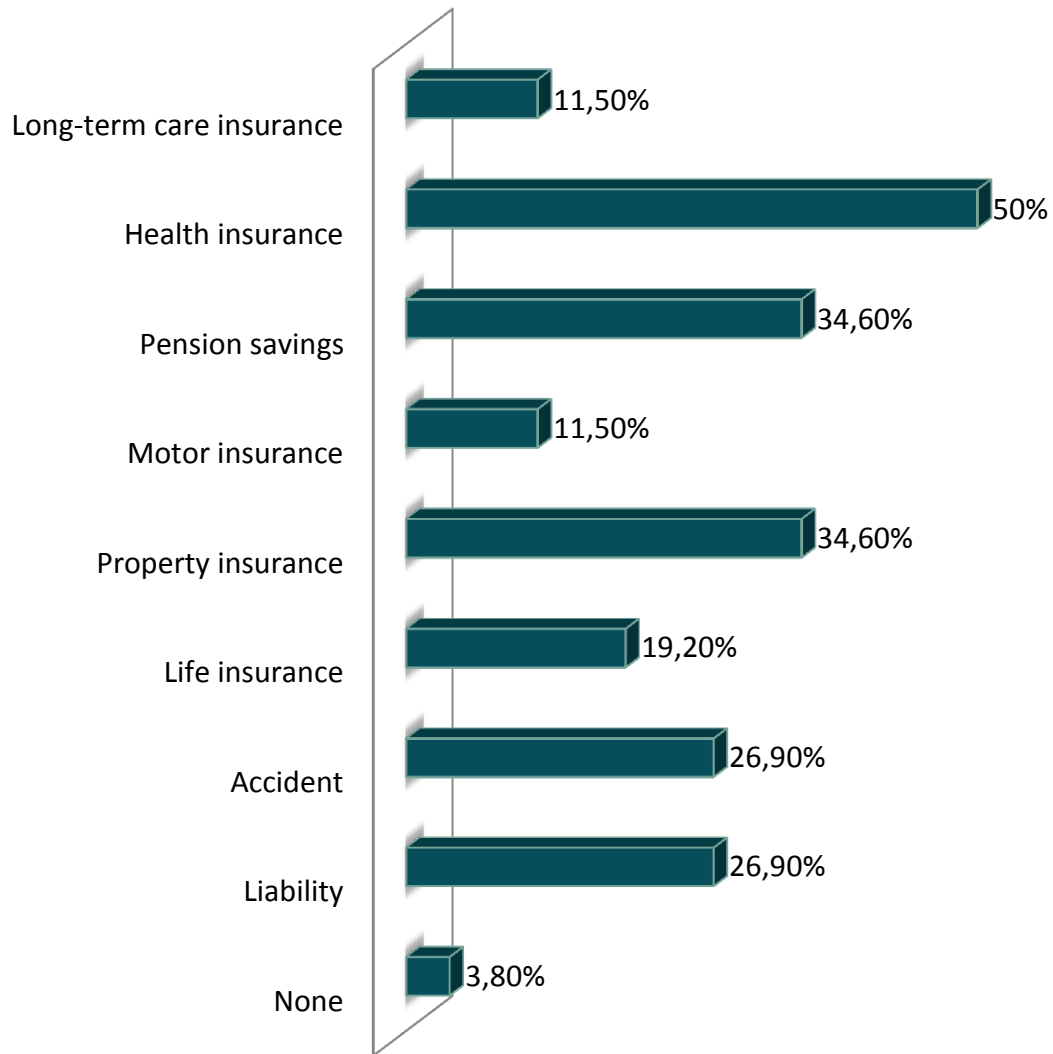


If the common bond principle/membership to economic sector is narrowed the **greatest potential** is seen in: **agriculture, pensions, healthcare, long-term care and tourism.**

Most suitable subjects for establishing new mutual insurance company would be:

- public sector workers,
- former executives of insurance companies,
- doctors, nurses, teachers, owners of non standard rare goods,
- young people who do not have stable place of living,
- environment, miners, railway traffic company employees,
- agricultural producers, farmers...

## Coverages potentially taken from mutual insurance company:



**“Never been a consumer-owner in a mutual insurance company or credit union.” – 76,9%.**

Most attractive type of mutual insurance companies:

1. membership to occupational organisation,
2. territorial principle,
3. modern memberships in social media groups,
4. membership to trade union.

# Prospects for mutual insurance companies' development in CEE countries

*Results of qualitative research*

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## Q1

Does your country have well developed mutual societies or cooperative organisations in general? How well are they developed in the financial sector (eg. credit unions, mutual savings associations, mutual pension or healthcare schemes, social economy, strong trade unions and associations)? Could you please explain the reasons behind such situation?

Some state that they see revival during the last few years, mainly in the agricultural area.

Many agree that mutual insurance is not well developed in the financial sector and not competitive to the other financial institutions.

In financial sector cooperative organisations do not seem to be so active. In insurance for the last twenty years the trend of decreasing of the share of mutual insurance is visible.

Some agree this is insignificant part of financial services and is realized only in the area of savings and credit cooperatives. New cooperatives do not enter financial market.

Many agree the number of such institutions is lowering, no co-operative bank operates in Slovakia, but a voluntary interest association of cooperative unions exists, established to protect their common interests (Slovakia).

Exist but they are not common. In financial sector they represent only a small part of the sector. Their role has been decreased to a significant extent during recent years. There is also Voluntary Mutual Insurance Funds as one of the pillars of pension system.

Need for advanced level of financial literacy, with economic development new participants in a market.

## Q2

Are there any mutual insurance companies or insurance cooperatives developed on the insurance market in your country? If they exist, are they competitive comparing to stock/investor-owned insurance companies? Do consumers perceive mutual insurance companies as important market provider?

---

At the moment one of the two companies that existed is closed and the other one is with revoked license for insurance activity. Participants mostly agree customers do not perceive mutual insurance companies as important market provider.

Since the beginning of 2017, there are no mutual insurance cooperatives. (Bulgaria)

Many state that the importance of mutual insurance undertakings in the insurance sector is practically negligible. Entities providing this kind of service/product are not real competitors to standard insurance undertakings.

No mutual/cooperative insurers operating in the legal form in the Slovakian market.

There are 2 mutual insurance companies in the market both active in the area of non-life insurance. Also, there are 10 small mutuals (active exclusively in the area of agriculture), their share is marginal. Hungary

### Q3

Is there a regulatory framework for mutual insurers business conduct in your country? Could you name and explain the reasons, in your opinion, for (non)development of mutual insurers in your country?

Mostly agreed regulation is still underdeveloped because there is no interest in setting up such type of companies.

Some state there are some provisions which regulate relations in mutual insurance cooperative and a specific legal framework for incorporation and activities of the cooperatives , while the reason for under development of mutual insurers is the complicated requirements for incorporation of such insurer.

Supervisor states the reason for under development could be that mutuals are not in position to raise enough capital from their mutualists in order to build viable business in compliance with the regulatory framework in comparison to stock/investor- owned insurance companies which have bigger potential for fundraising.

Mutuals are subject to the general regulation on associations (clubs). Some state that clients are rather conservative and they are not familiar with the concept of mutual insurance yet, what can be the main reason for under development of mutual insurers.

Mostly agreed there is no experience with this type of insurance in Slovakia.

There are acts that apply if the insurance company is a mutual association.  
The insurance specific provisions are regulated with laws related to insurance activity.  
Many agree mutuals are not well developed because there is no long history of them and there has been erosion in consumers' trust.



## Q4

What do you think about the future of the mutual insurers' development in your country?

---

Some state the new legal framework is expected to create the premises for the revival of this particular types of entities.

Many agree they do not expect that kind of insurers to be established in the near future.

Recent years have showed a period of no development of mutual cooperatives.

The trend of establishing mutual insurers cooperatives is declining in the recent years.

Many state they do not expect any significant changes on insurance market in respect of mutual insurers in the near future.

Many state they do not have any information about the future interest of establishing mutual insurance companies.

Mostly agreed the market share of mutuals has been shrunk and this tendency is expected to continue. For the existing ones is expected that they keep their market share, but the expansion of the business is not expected.

## Q5

In which insurance lines or market segments do you see potential for mutual insurers? What would be the common bond principle/membership (territory, occupation, large employer,...) for the establishment of mutual insurance company in your country?

---

Most of the participants agree they see potential mainly in agricultural insurance and that it is reasonable to expect that subjects interested in setting up such legal structures to establish their own criteria.

Some agree mutual insurance cooperatives shall distribute only life insurance products. The employees of a large employer could be interested in establishment of mutual insurance company.

Some state there might be a potential for mutual insurers generally in any line of business provided that the concept would be simple, understandable and cost efficient/ price attractive, maybe in the area of non-life insurance.

Mostly agreed there are no relevant information about this question.

Many do not see large potential for mutuals, and have not perceived any signs of new mutual players to enter the market.

## Q6

Do you think that the above mentioned groups of consumers would accept this kind of insurance model? What would be the critical success preconditions?

---

According to many, the critical success preconditions for such an insurance model are a strong corporate governance system, less expensive distribution channels, such as distribution via members or by electronic/distance means and a business structure dominated by low claims ratio lines of business.

Some state that to be successful, mutuals have to offer better and cheaper insurance cover than the other stock/investor-owned insurance companies.

Supervisor states they have no research available to make assumptions on possible perception of mutual insurance model by consumer groups mentioned.

Mostly agreed that consumers are rather conservative and very oriented on price and cost efficiency.

Mostly agreed that did experience some mistrust towards mutuals in general.

## Q7

Do you think that digitalization will foster or harm the development of mutual insurers?

---

Many state the digitalization is essential for efficiency and that the legal systems are more difficult to be changed and to adopt innovations. Mostly agreed technology will help mutual insurance companies.

Many agree digitalization of the insurance shall foster development of mutual insurers because it shall improve insurance services at all.

Some of the participants say there is no link between digitalization and the organizational legal form of the insurance company. The advantages and disadvantages of digitalization will be the same for both mutual insurers and life stock-owned insurers.

Many agree digitalization could be the opportunity both for “standard” insurance undertakings and the mutual ones as well. Although digitization might be more of an impulse for mutual insurance companies, there may also be a risk that if they do not respond to new trends in time.

Mostly agreed that in general, digitalization should help mutual insurance companies.

Many agree that due to the large costs of the development of digitalization, smaller players are lacking the resources to invest on their own. It may be profitable at group level where they have the scale.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• ownership structure allows mutuals to 'play a long game'</li> <li>• no return on investment objective</li> <li>• highly trusted brands</li> <li>• superior customer satisfaction</li> <li>• flexibility of not paying dividends</li> </ul>	<ul style="list-style-type: none"> <li>• rate of change of insurance markets and consumer expectations</li> <li>• limited access to new capital</li> <li>• weaknesses in governance</li> <li>• difficulty of engagement with members who don't understand their role</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• meeting new needs (e.g. one-stop shop)</li> <li>• further product innovation</li> <li>• leveraging customer loyalty</li> <li>• invest in emerging markets</li> </ul>	<ul style="list-style-type: none"> <li>• digitalization of personal lines which may undermine the relationship with members</li> <li>• adverse selection resulting from price wars</li> <li>• regulation more leaning towards stock companies causing additional cost</li> </ul>



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**Thank you for your attention!**

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