Cross-border business and cooperation in the mutual and cooperative insurance sector

Examples of practical cooperation and business expansion abroad
Responses to capital needs through cooperation

Brussels, 2011
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Cross-border business and cooperation in the mutual and cooperative insurance sector

The creation of the common European insurance market leads to increasing cross-border activities, also in the insurance business. This will be a challenge for everybody in the industry and it is a particular challenge for the mutual and corporate insurance sector, where proximity and members’ influence in the management of the company have been the main characteristic.

Capital maintenance is not only a challenge in unstable economic conditions, it is also a challenge in the expansion of the business or just in the regulatory changes due to the new solvency requirements. It was not so many years ago that seven of the ten largest insurance companies in the world were mutual companies: today the number of large mutuals has decreased because of the demutualisation of many large insurance companies.

The creation of cross-border entities is certainly easier under a capital market driven concept. I firmly believe, however, that growth and cooperation between mutual and cooperative insurers can and must be achieved and are of utmost importance for the strength of our sector.

As we all know, the landscape of mutual and cooperative insurers is very diversified. AMICE members, and the insurers of our sector in general, come in all sizes – from the small local agricultural or professional mutual to some of the large European players. Unlike in other parts of the world, mutual and cooperative insurers in Europe are active in both life and non-life lines. Many have a strong regional or national focus, but some have realised that there are good business chances abroad. The discussion event organised by AMICE in the context of its General Meeting 2011 intended to show examples of business activities and cooperation across borders by AMICE members.

Providing services across borders is never easy and the barriers in the financial field are particularly plentiful. Some of them have their roots in the psychology of the clients – this is often called the “home bias” –, others are the result of differences in legislation or taxation. Insurance services tend to be even more complex than the simpler banking products, like current accounts.

And expanding your business to a new clientele in another country means growing. We know that many mutual and cooperative insurers see or at least feel that their opportunities for growth are constrained by restrictions on their ability to raise external capital and/or by their governance. But there are, across the AMICE membership, excellent examples of ideas, concepts and possibilities. Sharing and discussing them in the AMICE spirit of cooperation was the purpose of the debate.
The experience of Eurapco

Dr. Werner Görg, CEO Gothaer, AMICE Vice-President
(based on preparations by Urs Berger, past CEO Swiss Mobilar)

Eurapco (= European Alliance Partners Company) is an alliance of seven mutual insurance companies in Europe:

Caser (ES)  Covéa (FR)  Eureko (NL)  Gothaer (DE)  Länsförsäkringar (SE)  Swiss Mobiliar (CH)  Tapiola (FR)

All partners own an equal number of shares.

The main philosophy of Eurapco
The main focus of the Eurapco organisation is on learning from each other in the spirit of openness, contributing for the benefit of all and being partner driven. Eurapco’s philosophy is called an “open kitchen”: all partners are invited to look at the specialities of other partners and all partners are willing to share where they have a special position or product in their markets and what their main developments were over the past years.

Eurapco structure

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1 [www.eurapco.com](http://www.eurapco.com)
Forms of activity:

- Joint working groups in many areas (see [www.eurapco.com](http://www.eurapco.com) > Events)
- Workshops
- Projects
- Peer seminars & Board symposium

Distinction between Eurapco activities and AMICE activities

All Eurapco partners (with the exception of Caser and Eureko) are direct members of AMICE.

**Eurapco priorities are:**
- the exchange of experience
- joint projects
- exploiting synergies
- achieving market impact

**AMICE priorities are:**
- lobbying for the mutual/coop insurance sector
- exchanging experience across national borders
- discussing (political) key issues

“The real benefit of cooperation in Eurapco is to create value together.”
unique in europe
seizing opportunities
to create value together

The insurance markets in most lines of business and throughout Europe are in an ongoing state of flux. Consolidation, open borders and the internationalisation of the industry bring many changes and confront insurance companies with a never-ending series of new challenges, such as new technologies, innovative distribution channels and constantly changing customer habits.

In today’s competitive economic environment, knowledge is one of the keys to success. Having the right information with the right people at the right time is essential for service-oriented insurance companies. Those that have introduced systematic knowledge management processes have the best chance of a successful future because the amount of information that needs processing grows larger every day. As European insurance markets converge, companies that know how other organisations deal with different markets can learn from them and gain an advantage in their home market.

The Eurapco Alliance has found the solution for these tasks: why not actively profit from the local experiences of other successful insurance companies in Europe? Why not share and learn from each other’s expertise? As strong players in their national markets Caser, Covéa, Eureko, Gothaer, Länsförsäkringar, Swiss Mobiliar and Tapiola joined forces between 1992 and 2008. The result is a dynamic platform for market, product and process knowledge exchange.

Today, Eurapco continues to apply this systematic approach. The Alliance operates with the commitment of all of its Partners, making it a genuine network of cooperation and integration with one single goal: to create value together and to stimulate commercial opportunities across Europe.
unified in one goal

Eurapco is an alliance of independent European companies from the financial services industry, active mainly in insurance. The Alliance consists of seven Partners that operate in 19 countries across Europe. By learning from their involvement on the international stage, Eurapco members aim to sharpen their competitive edge in their local markets.

Through close cooperation, Eurapco’s Partners encourage the systematic exchange of skills, knowledge and resources at European level. They contribute to the creation of sustainable value and concrete commercial benefits by:

- exchanging knowledge through networking,
- supporting the transfer of skills and resources,
- supplementing management development programs,
- joint operations and
- creating synergies.

In order to achieve these goals, Eurapco has established a multitude of common activities that cover the major lines of its Partners’ insurance business, including life assurance, non-life and health insurance, and their respective support functions such as human resources, IT, reinsurance, procurement and marketing.

Different Partners and business areas bring a great diversity of know-how, methods and skills. Belonging to Eurapco means being part of a multinational and multicultural group of successful industry players – a great help in an increasingly open European market. The opportunity to exchange and share models, technologies, products, services, tools and resources brings a great advantage for the successful operating insurers of tomorrow and to better serve our clients.
finding
the perfect match

Delivering tangible benefits – from strategic to operational – is Eurapco’s central objective. By knowing each other well, Eurapco Partners help each other in various strategic ways including support for an initial public offering or for a merger of two asset management companies. At an operational level, Partners transfer business models, tools and products from one country to another and cooperate in a wide range of segments.

Through workshops, study visits, peer seminars and benchmark studies, Eurapco has a systematic process that involves specialists from all its Partners. Sixteen Business Groups and Forums are responsible for various activities in the following areas:

- Assistance
- Communication
- Non-Life Commercial Lines
- Employee Benefits
- Private Lines Non-Life
- Health
- Human Resources
- Information Technology
- Life & Pensions
- Motor
- Non-Life Actuarial
- Commercial Lines Non-Life
- Non-Life Reinsurance
- Procurement
- Marine & Marine Baltics
- Marketing & Distribution

Knowledge exchange forms a foundation for deeper cooperation that leads to valuable benefits for the Partners. Either through jointly operated commercial activities, which generate income for Partners – e.g. the Employees Benefits Network or the marine business – or through mutual support that generates costs savings in areas such as international motor claims handling and cross-border cases of fraud.

Eurapco also provides a perfect platform for staff secondment, enabling Partners to support one another by supplying employees with specific expertise to help resolve manpower issues. With its courses for both senior executives and the next generation of senior managers, Eurapco also enhances the development of Partners’ managers through internationally known business schools. Eurapco not only enables people to widen their horizons with a European perspective, it also provides Partners with an open-minded network of possibilities.
Euresa¹ – from its origins until today
Hilde Vernaillen, CEO P&V Assurances

The origins of Euresa...

In 1990, the companies Macif, P&V, Unipol (now UGF) and Folksam, shortly thereafter joined by Maif, created two common instruments: a European Economic Interest Grouping (EEIG) and a Holding.

**Objectives**
- To gradually make their companies part of a European network
- To strengthen their positions on their respective markets by responding to the growing Europeanisation of the needs of the public
- But without diluting their respective identities.

=> Euresa was born – an operational and flexible tool for co-operation and sharing among European insurance companies belonging to the Social Economy.

The EURESA alliance today is....

... Three instruments to serve the members, with its own specific objectives

- **Euresa EEIG**, created in 1990 for practical collaboration among the members (technical exchanges and the sharing of know-how and resources);
- **Euresa Holding**, also created in 1990 for joint investments and support to "sister" companies in other countries;
- **Euresa Institute**, created in 2005 as a body for research and training in societal issues (particularly social protection).

Members of Euresa:
- DEVK (DE)
- MACIF (FR) *
- MAIF (FR) *
- Groupe P&V (BE) *
- UGF Assicurazioni (IT) *

Associated members:
- Lagun Aro (ES) *
- LB Group (DK) *
- Mamda (Marocco)
- Matmut (FR) *
- Atlantis Seguros (ES)
- MACIF Portugal (PT) *
- Syneteristiki (GR) *
- TUW TUW (PL) *

Partner member:
- IMA (FR)

* AMICE member

¹ www.euresa.org
Euresa is a tool for cooperation and collaboration among European insurance companies belonging to the Social Economy. Euresa members are characterised by a “participative” form of governance that involves the policyholders in the management of the company in an active way and that is focused on sustainable and “societally” responsible development based on common principles:

- Priority of the individual
- Voluntary individual and group membership
- Policyholder and stakeholder participation in the operations of the company
- Solidarity between policyholders
- Fair distribution of surplus
- Satisfying real policyholder needs

In 2002 the member companies published a document, entitled “We are committed by our values”, that demonstrates the desire of each of them to provide services which meet the real needs of policyholders. Activities among the member companies take place through three kinds of projects, such as: workshops, joint projects and shared practices.

The purpose of Euresa is to network with each other and to share issues. Moreover, it is important for them to respect the identity of each player in each market, to learn from each other and to reinforce the players in their markets by sharing the same strategy and setting up projects together.

A major acquisition by P&V in 2007 – a practical example of cooperation with Euresa partners

• On 29 June 2007, P&V Group reached an agreement with the Dutch financial group ING on the purchase of ING’s Belgian insurance subsidiary.

• The purchase included the takeover of ING’s employee benefits activities and the life and non-life insurance activities distributed through a network of brokers.

• P&V Group integrated these activities in its VIVIUM subsidiary. As a result, P&V Group’s business volume doubled in size.

• 67% of the purchase was financed by P&V’s own funds.

• The other 33% of capital was provided by three partners in Euresa: Italian Unipol and French MACIF and MAIF.

• The three partner groups have since then maintained representatives on the Board of Directors of VIVIUM.
Reale Mutua – the expansion of our activities in Spain
Luca Filippone, Deputy CEO, Reale Mutua

1. Which types of operations does Reale Mutua (RM) have in Spain? Since when is it presented in Spain?

Reale Mutua is the largest Italian mutual insurance company. Created in 1828, RM has more than 1,200 employees and 350 agencies in the whole country. RM also leads a group present in Italy and in Spain, which employs about 2,900 people and provides insurance to more than 3 million insured.

In Spain, RM has been operating since 1988. Since that date, it has grown steadily and has acquired several insurance companies. Today, Reale Mutua owns, indirectly, a 100% participation in Reale Seguros (RS) Generales SA, active in property & casualty insurance, and in Reale Vida SA, a life insurer. The two companies operate through a network of agents and intermediaries. In 2010, RS had a premium income of more than 765 Million Euro.

Thanks to the success of the bancassurance distribution channel in Spain, Reale Mutua, through Reale Seguros, has acquired 50% of UNNIM PROTECCIO and CAI SEGUROS GENERALES, belonging to savings banks of the same name and has thus entered the banking distribution channel and has seen growing market shares. At the moment, Reale Seguros is among the top ten companies of the Spanish insurance market for car and ‘multi risks’ insurance.

2. How did this happen? A mutual insurer in its country of origin selling insurance on the Spanish market? How does Reale Seguros operate?

In Spain, there are several insurance companies which are subsidiaries of foreign mutual insurers, among them Groupama and Liberty.

The Spanish insurance sector also has some well-known domestic insurance mutuals, such as Mutua Madrileña (an AMICE member), which has also set up limited companies specialising in several sectors and has been thinking (for a while) of also reaching an agreement with the distribution channel of banks, which, if it comes through, would make Mutua Madrileña the second largest non-life insurer in the country.

This confirms that the Spanish market offers developing possibilities for a mutual insurer and that the mutual business model is considered to be valuable and successful in the insurance field. Reale Seguros belongs to the Reale Mutua group which stands for seriousness, solidity and experience. This is a clear advantage and a main aspect of its growth. Its mutual background has been much appreciated by its clients, by the distribution channels and by its employees.

1 www.realemutua.it, www.reale.es
3. Does Reale Seguros have commitments towards the community and society, which are so typical of mutuals?

While Reale Seguros is a limited company, it bears several essential characteristics signalling that it belongs to a group applying mutual principles:

- The first is a long term strategy which means solidity and solvency of the company (the solvency margin is 300%), guaranteeing its capacity to satisfy its clients.
- Furthermore, the company is always attentive to the human dimension: offering proximity, quality and attention to its clients, employees and other stakeholders.
- One of the company’s objectives is to transfer a part of its benefits to social activities, in particular through the Reale Foundation, which (since 1988) has contributed to the set up and promotion of activities in the cultural, social, environmental and amateur sporting fields.
- Finally, Reale Seguros is a pioneer in the field of social responsibility (CSR).

4. Are you telling your Spanish clients that only the mother is a mutual and that you operate as such only in Italy or also in Spain?

We have informed not only our Spanish clients but also mediators, suppliers and employees about the mutual form of Reale Mutua. Being a mutual means collaboration, quality of service and long-term relations with our clients.

The identity of our group is one of our major advantages. It is a very positive aspect for our Spanish companies, which has been appreciated by the market; this is advantageous as regards competition, it fosters our growth and gives more value to our brand.

5. Which information do your Spanish clients get regarding the mother company, its activities and its mutual characteristics?

We try, to the extent possible, to work in a very coordinated way: the news of the group are published jointly and communication is homogeneous.

The Spanish market, clients and employees receive comprehensive information on Reale Mutua, its background history, its values, its excellent solvency ratio, its accounts and its news. This is essential and has been a fundamental aspect of the presence of our subsidiaries on the Spanish market.

Each time company presentations are made in Spain – internally or externally – Reale Mutua has emphasised the basis and the background of the Spanish company, integrating its principles, its activities and its management.
The integration and application of MACIF’s values in its Polish subsidiary
Philippe Saffray, CEO Macif Życie S.A. ¹

MACIF Życie TUW is the Polish subsidiary of the large French mutual MACIF, active in the life insurance market. As a part of the MACIF group, it is our natural objective to implement the group’s mutualist values also in our operations in Poland.

From an operational point of view, this means
- that we keep our contracts simple:
  o the insurance product must be of a high quality;
  o it must be fairly and attractively priced;
  o both the product and its pricing must be transparent and understandable.

The main challenge in this respect is the prevalent distribution system of personal insurance, dominated by networks of agents. Finding the best one to represent our products vis-à-vis our clients can not only be very challenging, but also quite expensive since it is a matter of remuneration how much efforts the agents put into representing your product.

- that we work – around and after sales – for the direct benefit of the insured:
  o explaining the contracts to our clients and
  o being available at any time for our members.

The main challenge in this respect is the generally very low level of knowledge about life insurance among the Polish population.

In terms of governance, this means
- that, as from 2011, policyholders’ representatives are invited to attend our General Meeting.

In summary, we try to transpose MACIF’s values into our offers and products and into the service level provided to our customers. For us, the insured individual takes the centre stage.

¹ http://www.macif.pl/
Forming partnerships within the Social Economy

Another important activity of MACIF Życe is to form partnerships with other entities and organisations that are part of the “social economy” – this means that they share the same values. The most important example is our cooperation with the cooperative banks (75 partners).

Conclusions

• Mutual insurance companies represent a market share of less than 5% in Poland.
• There is very little knowledge about mutuality in the academic field.

It is therefore necessary

• to prove, through concrete actions, the strength of MACIF’s mutualist values to all stakeholders;
• to work towards the integration of MACIF’s values in the daily work of our Polish team.
Vereinigte Hagelversicherung VVaG
and its national and international activities and cooperation
Dr Rainer Langner, CEO

“Vereinigte Hagelversicherung” is a specialist insurer for farmers, winemakers and market gardeners, founded in 1993 through a merger of “Leipziger Hagel” and “Norddeutsche Hagel”, two former mutual companies, founded in 1824 and 1869, respectively. The decision to merge the old traditional companies was an indirect result of the changes in the EU’s Common Agricultural Policy in 1992.

Three years later, we established the AGRORISK-GROUP, together with “Gartenbau-Versicherung”, a special insurer for horticulture. In this process, we partially swapped portfolios: Vereinigte Hagel took over the portfolio of fruits, grapes and vegetables and “Gartenbau-Versicherung” specialised in greenhouses. In 1996, we bought 100% of “Kölnische Hagel” from the AXA group.

Our total acreage insured today is 4.3 million hectares (43,000 sq.km) in Germany and 6.5 million hectares (65,000 sq.km) in Europe. This is almost the size of Bavaria or double the size of the whole of Belgium.

* an AMICE member

Our presence abroad

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1 www.vereinigte-hagel.net
## Our governance

- Vereinigte Hagel has approx. **100,000 members**.

- The business area is divided into **63 districts**. All members in one district are united in a district union. The **district assembly** represents the regional interests of the members. It meets once a year.

- Each **district assembly** elects one delegate to the **members’ representatives meeting**. It also elects/confirms the approx. 1,000 honorary loss adjusters.

- The **district assemblies** also make proposals for the members of the **supervisory board**.

- The **members’ representatives meeting** is the supreme organ of the company and represents all members.

- The **members’ representatives meeting** elects the members of the **supervisory board**.

- The **supervisory board** supervises the management and appoints the **managing directors**.

- The **managing directors** (currently two individuals with distinct areas of responsibility) manage the company.

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<th>100,000 members</th>
<th>63 districts</th>
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<td>63 district assemblies</td>
<td>Members’ representatives meeting</td>
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<tr>
<td>Supervisory board</td>
<td>Managing directors</td>
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One of the 63 districts has been established in Lithuania and comprises all our Lithuanian members. The district assembly has elected a delegate who participates in the members’ representatives meeting. We also intend to establish districts in other countries where we have members. For the moment, we can hold our members’ representatives meeting in German since the Lithuanian delegate member speaks and understands German. Should we in the future have delegates present who are not German speakers, we will of course use translation.

Finally, Vereinigte Hagel is active in the AIAG-IAHI, the International Association of Hail Insurers ([www.aiag-iahi.org](http://www.aiag-iahi.org)).
Tiroler Versicherung –
our business activities in South Tyrol / Northern Italy

MMag. Helga Wieser, Head of Strategic Planning

Founded in 1821 as a private association, “Tiroler Versicherung” finally started its business activities in 1825. It is the only insurance company that has its headquarter in Innsbruck, Tyrol. As a universal insurer in life and non-life insurance, it is the market leader in most branches of property insurance in Tyrol.

Business in Northern Italy, i.e. the provinces of Alto Adige (South Tyrol) and Trentino, accounts for roughly 4% (EUR 3.9 million) of our total premiums (EUR 113.3 million). The share of our Italian business is growing steadily.

History – the reasons why we went into Italy

When it was founded in 1821, Tiroler’s region of operations was much bigger than it is today – in those days, South Tyrol and Trentino still belonged to Austria. However, after the End of World War I, Austria had to cede South Tyrol and Trentino to Italy. Thus, Tiroler Versicherung lost about 50% of the total business in this region, where they used to be market leader. After ending its activities in Vorarlberg, Austria’s westernmost province, the business area of Tiroler was restricted to the Austrian parts of the Tyrol. This was the case until 2006.

The new management that started in 2000 wanted to recapture the company’s old home markets: South Tyrol and Trentino. A lot of organisational preparation was necessary until the first branch office could be opened in 2006, e.g. finding new partner agencies and developing new products.

The reasons why Tiroler endeavoured to return to its traditional business region were manifold:

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1 [www.tiroler.at](http://www.tiroler.at)
• Generally, a very similar region: similar in size, population, and total premium volume
• Similar in structure (agricultural, with one larger city) and risks
• In part, the same language (German)

Some challenges faced when entering the North Italian market

Due to the historical background, there is still a high percentage of South-Tyrolean, who have German as their mother tongue today. In fact, about 70% of South-Tyrolean speak German. The situation is different in Trentino, which is almost exclusively Italian-speaking.

New products had to be developed, but sales began quickly in South Tyrol. By and by, product specifications were translated into Italian and we could also start selling in Trentino.

Distribution channels, however, differed from the ones we use in Austria. In Italy, most insurance is sold through external agencies and brokers. This had the advantage that Tiroler Versicherung could fall back on external experience and knowledge and did not need to develop its own sales expertise.

The main challenges we faced were in the legal area and sometimes, at least initially, in the contact with Italian-speaking clients who directly contacted our headquarters in Innsbruck. In the legal field, there are considerable differences in premium collection between Italy and Austria and there is of course a different regulatory framework. And, of course, Tiroler was a new insurance company in an established market.

After 5 years in Northern Italy

Distribution System:
- 28 Agencies
- 8 Broker
- 5,600 customers
- 7 employees
- Volume of premiums: 3.9 Mio Euro

A few remarks on our governance

Tiroler Versicherung has a system of indirect member participation through member representatives. The management is obliged to nominate members to the representatives’ assembly in a way that the regions where our business is done are appropriately represented. It is eventually the assembly that elects the members.

With close to 4% of our business from Northern Italy, we have one (of 30) German-speaking member representative from South Tyrol.
MAF – the French architects’ mutual insurer
The international experience
Eric Billaud, Director of Reinsurance

The history of international engagement at MAF

• Double purpose:
  o accompanying French architects in their projects abroad
  o insuring foreign architects in their countries

• International cooperation in GEEAC (European Grouping of Insurers of Architects and Designers)
  o a group for the exchange of views and experiences
  o among specialised insurers
  o created in 1991

• Start of reinsurance activities and cross-border services in the 90’s
  o support of local specialised insurers in Belgium (1994), Spain (1994) and Italy (1997) through reinsurance
  o creation of EUROMAF Re in Luxembourg (1998)
  o partnership with a specialised broker in Germany (1995) and provision of cross-border services

• Creation of EUROMAF in 2000 as a joint-stock company under French law
  o joint project with ASEMAS (the Spanish architects’ mutual, an AMICE member)
  o start of activities through cross-border services, then through branches in Belgium (2002), Spain (2003) and Germany (2005)
  o activities, complementary to the service offers of MAF, in France

The different business models used

France:

The activities of EUROMAF in France complement the activities of MAF (serving engineers, designers, landscape architects, construction economists). The operation of EUROMAF is completely integrated in the operations of MAF.

Belgium:
EUROMAF has opened a branch in Belgium where day-to-day operations are carried out. Cross-border services are provided into the Grand-Duchy of Luxembourg.

Germany:
EUROMAF today owns the specialised broker, AIA, with whom it has cooperated successfully for many years. Day-to-day operations are outsourced to that broker. Cross-border services are provided into Austria.

Spain:
ASEMAS, MAF’s partner in the EUROMAF project, has established a 100% subsidiary to which the day-to-day operations are outsourced. Cross-border services are provided into Portugal.

The governance of the EUROMAF project:

- 1 President and CEO (identical with the CEO of MAF)
- 9 architects as Board members
  - 6 from France
  - 2 from Spain
  - 1 from Germany
- Internal audit committee of MAF
  - 2 Board members
  - 1 external expert
AMICE
Capital maintenance taskforce

How can mutual insurers survive the application of Solvency II?
Summary of the Interim Draft Report of the task force
(for the full text, see below)
Timo Laakso, Tapiola (FI), Chair of AMICE’s capital maintenance taskforce

Implementation of Solvency II

- Delayed implementation of OMNIBUS II will lead to uncertainty, in particular regarding the treatment of traditional own funds instruments:
  - tighter eligibility requirements => pro-cyclical effects => concentrated markets => standardisation of covers and guarantees
  - in contradiction with objectives of SII
  - necessary grandfathering of subordinated instruments +
  - transitional period of 20 years

- Still, there is a clear imbalance between mutuals and plc’s when it comes to the possibilities to get outside financing in tier 1 capital.
  - In practice, mutuals have access to only 20% of tier 1 capital from the publicly quoted capital markets.
  - For plc’s, the equivalent figure is 100%.

- Congruence between Basle III and Solvency II regarding own funds calculation Regulators will recommend similar management and procedures for similar risks
- Need to reaffirm intrinsic differences in business models and fundamental differences regarding the risks covered
- Risk pooling arrangements: way forward for mutual insurers.

Predominance of national situations

- Many different types of capital instruments
- Great diversity as to structure of capital of mutual insurers
- No harmonisation across the EU
- In some Member States, the cooperative model (i.e. social shares, perpetual securities, etc.) is being analysed.

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1 [http://www.amice-eu.org/Accounting.aspx](http://www.amice-eu.org/Accounting.aspx)
Financing

- SMEs represent around 95% of EU insurance companies and around 15% of market share by premiums; most of them are mutuals/coops.
- This current ‘biodiversity’ needs to be preserved.
- Divide between SMEs and large mutual/coops as far as financing opportunities are concerned:
  - large insurers: access to adequate segments of capital markets
  - SMEs: access to bond market nearly impossible

In conclusion

To prevent rise of consolidations and demutualisations

- Need for innovative, different types of financing, moving away from traditional hybrid instruments, well positioned in SII and Basel III regimes
- Pooling structures with solid ratings & attractive risk and return prospects for investors
- A lot of expertise needed within member organisations:
  - investments
  - legal
  - accounting
  - Solvency II
- Still the 20% restriction of newly formulated hybrids in tier 1 capital as currently stated in the Solvency II draft is a serious limitation for mutuals!
Draft report
submitted to the panel of European mutuals/cooperatives on cross-border cooperation in the mutual insurance sector

How can mutual actors in the European market ensure that their distinct business model (which does not provide for a direct access to capital markets) can survive the application of the new prudential model and that the current diversity of the financial sector lives on?

Implementation of Solvency II

The taskforce notes that the delayed timeframe for adoption of the Omnibus II directive (with the European Parliament’s vote pushed back to January 2012) will cause uncertainty for undertakings as regards their preparation for the entry into force of Solvency II. The taskforce is particularly concerned by the expected treatment of traditional own fund instruments such as hybrids.

Tighter eligibility requirements for own funds – far beyond the original provisions of the framework directive 138/2009-will generate pro-cyclical effects and reinforce financial instability.

These measures will undoubtedly hit mutuals and cooperatives (especially small and medium ones) much harder than large PLC’s because of the former’s greater use of so called “Restricted Tier 1” capital.

The adoption of these measures can only lead to more concentrated markets (meaning higher systemic risk) and to a greater standardization of covers and guarantees due to the increased financing costs of insurance undertakings.

These results are of course totally contradictory to the initially stated intentions of the promoters of the Solvency II project.

The taskforce believes that subordinated instruments currently eligible to cover the required Solvency I margin up to 50% should be grandfathered under Tier 1 and subordinated instruments eligible to cover the required Solvency I margin up to 25%, should be grandfathered under Tier 2. Moreover, the taskforce strongly advocates a transitional period of 20 years (instead of 10 years).

On the other hand, the taskforce recommends that close attention be paid to the system to be applied to banks under Basel III. It is worth mentioning that the Task Force on the comparison of the calculation of own funds in Insurance and Banking sectors¹ in particular states that for banks and insurance entities bearing similar risks, operating in the same financial markets and

¹ And recommendations to address the undesirable differences, CEIOPS-CRDIVSII-05/10, 2 November 2010
facing level-playing field challenges, consistency ought to be sought according to the motto “same business same principles”. This conclusion provides a good starting point bearing in mind the structural differences in business models of banks and insurers as well as the different risks they carry.

It is thus to be expected that, to avoid any arbitrage, regulators will support similar management and regulatory approaches for similar risks and similar activities. In light of this, the taskforce believes that it is still essential to remind the European and national regulators and supervisors of the intrinsic differences between banking and insurance; the core of insurance being the diversification of risk in the portfolio and over time, meaning more attention to be paid to long term investments and financing resources but much less liquidity risks than for banks.

Risk pooling arrangements among (notably) mutual insurers can be considered as a useful tool to promote ways to manage capital requirements.

Risk pooling possibilities also exist on the financing side and these possibilities should be carefully investigated (see conclusion of this report), following the “principle based approach” of the framework directive.

Prevalence of national situations

It seems fair to say that when it comes to capital instruments, possibilities for structural arrangements and different kind of provisioning techniques, the current situation is still far from a real harmonisation across the EU.

The taskforce has identified the following national options:

**Guarantee capital**
(investment vehicle offered by certain institutions and which is held by a mutual company against any losses)
- Usually available for mutuals in limited amounts only, from operators who are close to the mutual sector.

**Subordinated loans** with the following characteristics:
- Public issuance;
- Non-public (targeted) issuance;
- Significant amounts have been issued to investors;
- Possible restrictions as regards eligibility under Solvency II after grandfathering periods.

**Operational profits through retained earnings**
- The best way for mutuals on an ongoing concern basis to ensure their capital maintenance;
- Does not however provide the right answer for capital needs when fresh capital is urgently needed to meet regulatory requirements.

**Supplementary calls**
- Probably only valid for small mutuals with limited geographical or customer base operations.
Membership accounts
- In case of winding up or bankruptcy, these funds cannot be paid back until all other debt is settled;
- In other cases, funds can only be reimbursed if this does not imply that the solvency requirement cannot be met;
- In case of reimbursement, the supervisor must be notified one month before and the supervisor can deny such reimbursement;
- Changes to company statutes regarding these funds must be approved by the supervisor.

Deferred shares: Permanent Interest Bearing Shares (PIBS)
- PIBS are deferred shares issued by a building society, which meet the requirement for Tier 1 capital;
- Introduced in 1991, they are no longer used and are meant to be replaced by PLADS (see below).

Principal Loss Absorbing Deferred Shares (PLADS)
- PLADS are designed to provide a fair and stable return for risk-takers;
- PLADS have a limit on distributions: the shares are only repayable when winding up;
- Distribution is discretionary (not a contractual coupon), which ensures flexibility. Moreover, distribution is capped at a stated percentage to prevent alienation of surplus from members;
- Can be held by institutions, high yield funds or retail investors. Need listing and secondary markets;
- Could be suitable for smaller undertakings.

The French mutual insurance association FFSAM is currently examining the types of shares used by cooperative banks, which could however lead to a change of statute for mutuals:

Social shares
- Nominative;
- Held by members/clients, one member, one vote;
- Remuneration: interest rate which is close to the average yield of private bonds;
- Upon winding up of the company, members have no rights on the liquidating dividend;
- These shares are negotiable upon decision of the General Meeting or Board. No quotation possible.

Perpetual Securities (CCI) without voting rights
- Limit of 50% of the capital;
- Open to members and the wider public;
- Grant no voting rights at the General Meeting but some at special assemblies for holders of such securities;
- Remuneration is set by the General Meeting and at least equal to the social shares;
- Upon winding up of the company holders of the CCI have a right to the net assets (in proportion to the capital held);
- These securities are freely negotiable and can be quoted.

Perpetual Securities emitted for the duration of the company (CCA)
- These have only been used by Crédit Agricole in France;
- The only possible holders are members of credit institutions or cooperatives;

See FFSAM paper ‘Access of mutual insurers to capital’, February 2011
- No voting rights are granted at the General Meeting but at the special assemblies;
- Remuneration is set by the General Meeting and at least equal to the social shares;
- Holders of CCA have a right to net assets (in proportion to the held capital);
- These titles are freely negotiable but are not destined to be quoted on a stock exchange (prerequisite admission conditions);
- The novelty of the CCA is that they are only held by members.

**Financing**

In Europe, there are more than 5,000\(^3\) licensed insurers. Figures compiled by the CEA\(^4\) in its 2007 Solvency II briefing note ‘The Small and Medium-Sized Undertakings and Solvency II’ indicate that SMEs represent approximately 95\% of the number of European insurance companies and contribute to some 15\% of the market share by premiums. Among this large number of SMEs, most have the mutual or cooperative legal form.

Based on the above and on the recommendations of several Parliamentary reports which request that the architecture of financial services at EU level ‘be such as to guarantee the co-existence of different structures and sizes in order to provide for efficient and competitive players both at international level and within proximity networks’\(^5\), for financing purposes, it seems that a line must be drawn between the SME-type of mutual or cooperative insurer and the large ones.

The latter do not – at least at present - have to look for collective financing sources as many have already issued subordinated debts and some have already obtained direct access to adequate segments of capital markets.

The outlook for SMEs is however quite different: hundreds of very small ones, geographically confined, generally more than one hundred years old and limited in their lines of business (under €5 Million GWP). Their total number is uncertain (they are generally not featured in the national statistics on insurance companies) but it is expected that their number will dramatically fall should the “Level 2 Implementing Measures” and “Level 3 Guidance” Solvency II proposals be adopted as they currently stand.

If Solvency II is to be applied to them, the question of financing will sooner or later constitute a challenge and for SMEs, access to the Tier 1 and Tier 2 eligible bond market is delicate if not impossible. The main obstacles as analysed by FFSAM\(^6\) are:

- The need for a quotation by a specialised agency;
- The need for an emission programme such as EMTN (Euro Medium Term Note) in order to attract investors/bring liquidity at emission;
- The need for a detailed financial communication to inform potential investors.
- In addition, the French mutual association document indicates that fixed costs are all the more difficult to amortise given that there are few emissions. As to the size of the emission:

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\(^3\) AISAM study, mutual insurance in figures, 2007. The figure of 6000 insurers initially given in the report has to be reduced in light of the contraction of the French health and providence mutual sector.


\(^5\) Report of the ECON Committee on « Towards further consolidation in the financial services industry »: P6_TA (2006)0294, Rapporteur : Joseph Muscat (PSE, MT)

\(^6\) French Federation of Mutual Insurers (FFSAM), ‘Access of mutual insurers to capital’, February 2011
the access to the bond market is difficult (but however possible) for amounts below €300 Million. In that case, the issuer will have to choose its sales force on the markets in order to advantageously place its product. However even so, the emission will not be very liquid and its market value will undergo a discount. Private subordinated financing with financial institutions have also been made possible: the private character of these financings makes it impossible to determine the depth of the market.

- Moreover, certain asset managers or actors of the financial market are starting to propose specific investment vehicles in subordinated debts issued by ‘small actors’ of the insurance world. This could increase liquidity for this segment.

In light of the above, the taskforce has decided to consider working on a proposal for pooled financing structures for mutual and cooperative insurers and look for possible suppliers. Such arrangements have been done in the past, both in Europe\(^7\) and in the US\(^8\).

**Conclusion**

Alongside alliances (which will be addressed in a separate paper), different types of financing between mutual and/or cooperative entities could be one way to meet their capital needs.

As mentioned above, it seems that traditional hybrid instruments will no longer constitute the best form of capital under the new prudential regime. These instruments, even if they have effective loss absorption capabilities, will be considered at best as “Restricted Tier 1 Capital”, meaning limited admissibility to cover regulatory capital requirements.

Instead, different types of contingent loan structures, better positioned in the Solvency II and Basel III regimes will most probably be favoured. Consequently, other capital means should be investigated.

To that end, it seems wise to consider pooling structures among mutual/cooperative entities in order to present solid ratings and attractive risk & return prospects for potential investors.

The taskforce would like to investigate the model provided by ICMIF’s Allnations subsidiary company with a view to mutual / cooperative insurers establishing a third party undertaking which would serve as an investment vehicle. Its role would be quite similar to a private equity investor who controls the financial strength of a ‘target’ undertaking, with the main difference being that return on investments may be maintained at a moderate level, given the purpose of this arrangement (which includes some solidarity).

A lot of expertise is required from the investment, legal, accounting and Solvency II experts within companies to build up the abovementioned pooling structures. Designing these structured products or financing pools is obviously not an easy task when taking into account both sides of the deals, i.e. issuers/participants of the pool and the investors. For issuers, it is important that the cost of capital acquired stays within reasonable limits. For investors, transparency and risk / return optimisation is of utmost importance.

\(^7\)ICMIF proposed pooled subordinated loans, funded in the capital markets via a Collateralised Debt Obligation (CDO) transaction. However, at that time, in 2003, the capital issues were not as topical as they are today.

\(^8\)NAMIC (http://www.namic.org/) had a programme combining insurance company surplus notes (primarily from mutuals) with similar debt from small banks called “trust preferreds” and rolled it up with the bonds representing both types of loans. This market allowed members to borrow long-term (up to 25 years) at low rates, in a very efficient and convenient market.
Given the current developments in some EU Member States, the taskforce is deeply concerned that the failure to find an adequate answer to future regulatory capital needs will lead to a next wave of consolidation and demutualisation, which would reduce the diversity of the offer of insurance products but not their prices.
The French SGAMs and the group regime in Solvency II
Jean-Luc de Boissieu, Secretary General, GEMA

The objective of this note is to analyse the situation of the French mutual insurance group model (SGAM) in the light of the provisions on insurance groups in the Solvency II Directive of 25 November 2009. The questions are whether a SGAM qualifies for group treatment under Solvency II and, before that, whether the SGAM falls under the definition of an insurance group in Art. 212 of the said Directive.

I. Does the SGAM fall under the definition of an “insurance group”?

Article 212(1)(c) of the Solvency II Framework Directive (see text box at the end of this note) addresses, among others, the case of “horizontal” groups that are, like SGAMs, “based on the establishment, contractually or otherwise, of strong and sustainable financial relationships among ... undertakings, and that may include mutual or mutual-type associations”. SGAMs are, in fact, a form of grouping that is based not on capital links, but on a contract through which the SGAM members create a system of financial solidarity among themselves. This solidarity is defined and its limits are set out in the contract.

Article 212(1)(c)(ii) adds, however, two more conditions SGAMs have to fulfil to be considered as insurance groups in the meaning of the Directive:

- first, the creation and dissolution of such contractual relationships are subject to prior approval by the group supervisor – this does not create any problem as such;
- second, it is necessary that “one of the undertakings effectively exercises, through centralised coordination, a dominant influence over the decisions, including financial decisions, of the other undertakings that are part of the group”.

This second requirement is not (automatically) fully in line with the legal structure of the SGAM. In a SGAM, the coordination and centralisation is the raison d’être and one of the principal functions of the SGAM. Or, to use a model also used by Karel Van Hulle, SGAMs are constructed like an “inverted pyramid”.

The SGAM under French law is not an insurance undertaking. It is a company whose only objective it is to administer the SGAM agreement between its members. So, the SGAM is not really “one of the group undertakings” that exercises a dominant influence over decisions”; it is rather the forum of its members (but distinct from them) with certain coordination and steering functions.

It is therefore clear that a SGAM does not exactly fulfil all the criteria for an insurance group laid out in Art. 212. Therefore, it is up to the supervisory authority (the ACP in France, other national

1 www.gema.fr
II. The treatment of SGAMs under Solvency II

With regard to the considerations above, there seems to be a simple choice: either SGAMs assimilate themselves to groups – or they won’t be recognised as groups.

1. If SGAMs want to be recognised as groups, it follows that they must
   - adopt common rules on how to apply Solvency II (group internal model or standard formula; uniform and centralised governance system; coherent information systems; ...);
   - calculate their group SCR according to one of the two methods specified in the Framework directive with the consequence that they could benefit from size and diversification benefits;
   - administer their SCR in a way as to always fulfill group SCR requirements.

2. If SGAMs are not recognised as a group, it follows that
   - every member remains independent in calculating its (solo) SCR;
   - every member considers in its tier 2 or 3 capital the reciprocal engagements towards financial solidarity as agreed between the members of the SGAM.


1. For the purposes of this Title, the following definitions shall apply: ...

(c) ‘group’ means a group of undertakings that:

(i) ...; or
(ii) is based on the establishment, contractually or otherwise, of strong and sustainable financial relationships among those undertakings, and that may include mutual or mutual-type associations, provided that:

- one of those undertakings effectively exercises, through centralised coordination, a dominant influence over the decisions, including financial decisions, of the other undertakings that are part of the group; and,
- the establishment and dissolution of such relationships for the purposes of this Title are subject to prior approval by the group supervisor,

where the undertaking exercising the centralised coordination shall be considered as the parent undertaking, and the other undertakings shall be considered as subsidiaries.
SGAM – Mutual Insurance Group Society –
a French tool enabling mutual companies to form groups:
Covéa, a concrete example
Thierry Derez, President and DG, Covéa

Introduction
Within our group, Covéa (the SGAM) is
• the place for financial solidarity between the mutu als,
• a tool for piloting the strategy and project coordination,
• the mother company for the combined accounts and fiscal integration.

A few figures
• Turnover EUR 13 566 million
• Number of clients 10.5 million
• Number of employees 24 899
• Number of sales points 2 850
• Solvency margin 356 %

The Covéa Group consists of nine mutual insurance companies that are grouped in four “families”, according to their structure at the establishment of the SGAM.

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1 [www.covea.eu](http://www.covea.eu)
Every member has a seat at the General Meeting of Covéa.

Each of the “families” has the same voting weight. Within the families, the number of votes corresponds to the number of members of each individual mutual.

The SGAM has a Board of 26, all of whom are Board members of the 9 SGAM constituents.

The President and DG of Covéa is also the CEO of the main constituent mutuals, AM, MMA, MAAF and GMF.

Covéa’s mission

- Covéa’s mission is to develop and ensure the continued existence of its member mutuals.
- The mutuals have entrusted the group’s strategic coordination to Covéa.
- Covéa carries out this mission with respect for the identity of the brands and the precedence of the mutuals.
- Covéa’s aim is to make the best possible use of the synergies between its members and to optimise their organisation.
- The aims of the SGAM are specified in its statutes and the membership agreements which individually link each member company to Covéa. This membership agreement, which is freely defined by the signatories, lays out the rights and obligations of each party.
The membership agreement specifies in particular the limits of the financial solidarity between the mutuals so that the failure of one does not bring down the others.

**Covéa vis-à-vis “competition” regulations**

If a certain level of turnover is reached as indicated in the law, the creation of a SGAM or joining a SGAM is subject to prior authorisation by the competition authorities (French or European).

In fact, in France, the creation of a SGAM or joining a SGAM is generally considered to be a de facto merger, and is thus treated like a concentration transaction.

It has to be proven to the competition authority however that the companies will act like a real group through the SGAM. This has always been the case for Covéa.

This aspect is primordial as it dictates which competition regulation will apply:
- that on mergers which requires pre-notification
- or that on agreements which are subject to monitoring after the event…

**Covéa and Solvency II**

- Upon analysis of the group definition in article 212 of the Solvency II Directive (see the contribution by J-L de Boissieu in this publication), we do not consider that all SGAMs may automatically be compared to a mother company.
- To be considered as a group under Solvency II, the essential criteria are “centralised coordination” and “dominant influence over the decisions”.
- As regards the other criteria, the “establishment, contractually or otherwise”, the “strong and sustainable financial relationships” or “the establishment and dissolution of such relationships ………….. are subject to prior approval by the group supervisor”, they correspond to the way a SGAM functions.
- **At this stage, we consider that Covéa meets the criteria of this definition. The contents of the membership agreements like that of Covéa’s statutes fit this framework.**
About AMICE

AMICE, the Association of Mutual Insurers and Insurance Cooperatives in Europe, was created in January 2008 through the merger of the two previously existing associations of mutual and cooperative insurers in Europe, AISAM and ACME, to represent the interests of the sector with one united voice.

Its prime purpose is to ensure that the voice of the mutual and cooperative insurance sector in Europe is heard and that the interests of its members are taken into account in securing a level playing field for all insurers in Europe regardless of their legal form.

AMICE provides a platform for mutual and cooperative insurers of all sizes to combine resources and expertise, exchange experiences across national borders and discuss key issues and concerns relating to planned legislative and regulatory changes and developments.

With around 110 direct members and 1,600 indirect members, representing over 40% of the insurance companies in Europe and 20% of the premiums, AMICE speaks for a significant part of the insurance sector.