STUDY OF MUTUAL MODELS IN INSURANCE

A BACKGROUND PAPER BY THE NATIONAL INSURANCE ACADEMY, PUNE

SEPTEMBER 1, 2022

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STUDY TEAM

Dr Archana Singh
Faculty, National Insurance Academy, Pune

Dr S Uma
Faculty, National Insurance Academy, Pune

Mr. V Sathyakumar
Chair Professor - Financial Inclusion and Social Security,
National Insurance Academy, Pune

Mr. G. Srinivasan
Director, National Insurance Academy, Pune

ACKNOWLEDEMENT

We gratefully acknowledge the financial support extended by Agriculture Insurance Company of India Limited, New Delhi for this study.

We thank the staff of NIA Ms. Prachi Patil for extending secretarial support in the preparation of the report.

EXECUTIVE SUMMARY

Mutual insurance is an alternate insurance organisation which is in the form of Policyholders for Policyholders. Mutual insurance is owned and/or controlled by its policyholders, contrary to shareholding insurance companies. The fundamental principles of mutuals are solidarity, democratic governance, and sustainability. This ensures the best interest of policyholders as it helps maintain a balance between offering quality insurance products and services and generating profits.

Mutual insurance is a well-developed and established form of insurance in developed economies and mature insurance markets like North America, Europe, and Japan. Mutual and cooperative insurers hold 27% of the global market share, and Mutuals serve over a billion members and employ over a million people (ICMIF). About 80% of members/policyholders of mutual insurance are in Europe and North America.

Mutual insurance is also a community-based risk-sharing mechanism in the informal sector in rural and poor areas of Sub-Saharan Africa, South Asia, and India. The potential for mutual insurance in emerging economies like India is immense because of its sizeable uninsured population and microinsurance focus. IRDAI took an essential step in this direction by forming a committee to suggest changes to include stand-alone micro insurance institutions. In its report named 'Report of the Committee on the Standalone Microinsurance Company (2020)', the committee observed that India needs to improve access to insurance by introducing multiple players.

Against this backdrop, this study was conceived to understand the space of mutual insurance. The study covers the USA, Europe, Asia, Africa, and Latin American markets. In Europe, the countries studied are France, Germany, and the Netherlands. In Asia, Japan, China, and Philippines are covered. This study aims to examine the landscape of insurance mutuals and cooperatives across the globe and draw insights and learnings for India. The study focuses on the dimensions of history and evolution of mutuals, mutual and cooperative culture, regulatory environment, support, and protection to insurance mutuals, capital and solvency requirements, the competition of mutuals vis a vis other competing entities and technology use.

The study observes that mutual and cooperative culture is high in European countries like France, Netherlands, Germany, the USA, and Japan, moderate in South Africa, China and the Philippines. The presence of strong mutual and cooperative culture provides a conducive environment for growth of mutual insurance organisations.

- Mutual insurance companies follow the principle of ownership to members, democratic principles and value maximisation for members. These principles address principal-agent problems, conflict of interest between insured and insurer, information asymmetry, adverse selection, and moral hazard common in stock companies.
- Mutual insurance companies across the globe started their function with the contribution of members. Later, they built funds from the surplus generated by the business. However, there are exceptions to this in Netherlands and France.

- A cross-cutting theme that emerges from the study of mutual insurance across the globe is that the primary factor in initiating a mutual entity is affordability by eliminating the role of agents/intermediaries and commissions.
- Mutuals started by covering specific risks concentrated with people engaged in particular livelihood and living in the same area, then diversified by adding new products and business lines and opening their services to the public. Many large mutuals turned into holding companies and floated subsidiaries which are shareholding companies, to facilitate diversification and business expansion.
- Studies of the evolution of mutuals and cooperatives indicate that the advent of welfare states, formalisation of organisations started during the industrial revolution, development of code of conduct, by-laws and regulations of the Governments/State impacted their relevance and existence.
- In many countries, governments took a protectionist approach towards mutual and cooperative societies, keeping their non-profit nature and welfare approach in view. However, in Europe countries which are part of the European Union, the requirement to have a uniform code in financial services forced many countries to drop their protectionist approach toward the mutuals. This increased competition in the market and triggered demutualisation.
- One of the limitations of mutuals is capital which restricts the growth of mutual insurance companies. This limitation has also triggered the demutualisation of many sizeable mutual insurance companies in the USA, France, and South Africa.
- As the size of mutuals increases, the distance between members and management increases. It results in the separation of power between owner members and management, which requires better regulatory governance and control. These changes lead to increased control of the regulatory regime leading to the neutralisation of regulation vis-a-vis sharing holding companies.
- Despite these challenges and changes triggered by the environment and changes in regulation, the mutuals are observing constant growth in business share and members in these countries.

A wide variation in regulations is observed across the countries. In the USA and South Africa, a single regulation covers both shareholding and mutual companies. Whereas in Europe, separate clauses govern mutual insurance companies. In Japan and the Philippines, there is a separate regulator with specific regulations for mutual and cooperative insurance companies. The USA market appears to be competitive, and mutual insurance companies compete with other forms of insurance companies. It is uniform and standardised for all forms of insurers.

However, regulators took a lenient approach towards mutuals and cooperatives in Europe, and protection is slowly being removed following the insurance code under the EU regime.

We observed that the legal and regulatory requirements, including capital and solvency, are almost standardised for all forms of insurers in most of the countries studied. Thus, the Mutuals face intense competition from shareholding companies in the countries studied.

The extent of use of technology is varied in these countries studied.

The study finds robust evidence that the social economy plays a vital role in the evolution and development of insurance mutuals and cooperatives. This organisational form underwent changes due to the change in times and regulatory and market requirements. However, the basic principles underlying mutual insurance are preserved to offer financial protection to its member - policyholders. Mutual insurers compete with other (primarily joint stock) players in the insurance market. High capital requirements for expansion and diversification are taken care of through either demutualisation and/or mutual holding companies.

The merits of mutual insurance allow the model to be cost-effective and responsive to the insured's needs. It also brings ownership by increasing trust in customers. It can serve as a good model for bringing insurance inclusion as it addresses the prime concerns of low-income and rural populations by bringing transparency, control by policyholders and delivering value for money.

Mutual insurance in India is not explicitly referenced in the current IRDA regulations, though the earlier insurance legislation of 1938 recognised mutuals. However, various studies have identified about two dozen community-based mutual insurers working in India. They work in informal social development space covering more than two million underprivileged populations. These organisations cover their members' risks by retaining them and do not fall under the preview of the insurance regulator. They face difficulties in securing finance to upscale their activities.

Mutuals and cooperatives engage and encourage low-income families and have become the primary financial inclusion model in the design and distribution of specific goods and services. A regulation which can delicately balance the solvency requirements of risk carriers with the risks of realistically covering the lives and livelihoods of the low-income and poor will create space for small organisations working on insurance inclusion.

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1. INTRODUCTION

A mutual or cooperative is an insurer owned and/or controlled by its policyholders. Mutual and cooperative insurers, known as "mutuals," differ from stock insurers as mutual insurers do not have external shareholders.

Mutuals are owned by, governed by, and operated solely in the interests of their customers/members and help them deal with losses due to natural disasters and climate change (ICMIF 5-5-5 org). It is a concept that acts in the policyholders' best interest and helps maintain a balance between offering quality insurance products and generating profits. All generated profits are put back into the mutual and used to the benefit of its policyholders, also called members.

A mutual is further defined by the fundamental principles of solidarity, democratic governance, and sustainability. Mutual members have a say in how the mutual/cooperative operates, and mutual members are treated with equality (amice-eu.org).

Mutual insurance is a well-developed and established form of insurance in developed economies. According to the National Association of Insurance Commissioners (NAIC) "The mutual insurance industry traces its roots back to England, where, in 1696, the first mutual fire insurer was established. The first American mutual insurance company, the Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, was founded in 1752. Mutual insurance companies have no equity interests. Membership rights are held by their policyholders. Policyholders are entitled to vote for members of the company's board of directors and may receive special dividends".

According to Insurance Information Institute (III), USA, dividends are the money returned to policyholders from an insurance company's earnings. Considered a partial premium refund rather than a taxable distribution, reflecting the difference between the premium charged and actual losses. Many life insurance policies and some property/casualty policies pay dividends to their owners. Life insurance policies that pay dividends are called participating policies in the form of capital distributions or reductions of policy premiums."

Mutual insurance is well-established in mature insurance markets like North America, Europe, and Japan. There are over 5,000 mutual and cooperative insurers in 77 counties across the globe. Mutual insurance accounts for more than 25% of the national market in 20 countries and has a market share of 40% or more in the USA, Japan, France, and Germany. The mutual market registered a growth rate of 29.8% in the last decade.

Mutual and cooperative insurers hold 27% of the global market share. The share of mutuals in global life business is 22.5% and 31.6% in non-life business. As per the Global Mutual Market Share Report by ICMIF (2019), mutual insurers wrote USD 1.3 trillion in insurance premiums in 2017, as can be seen in Table 1:

Table 1: Mutual Market Share by Country/Region

Region	Market Share	Mutual Members/ Policyholders
Global	26.7 %	922 million
North America	38.3 %	285 million (30.9 %)
Europe	32.7 %	435 million (47.1 %)
Asia & Oceania	13.2 %	159 million (17.2 %)
Latin America	11.2 %	30 million (3.2 %)
Africa	2.7 %	13 million (1.04 %)

Source: Global Mutual Market Share 10, ICMIF (2019)

Mutuals operate in life and traditional life insurance products accounted for 45% of global mutual life business written and 36% of mutual life premiums were derived from pension and annuity products. About 33% of global mutual non-life premiums are derived from motor insurance, health insurance and property and fire insurance contributed 28% and 24%, respectively, as indicated in Table 2.

Table 2: Business Line wise Premium of Mutuals

Business line	Global premium percentage
Traditional life insurance	45 % of life business
Pension and annuity	36 % of life business
Motor insurance	33 % of non-life business
Health insurance	28 % of non-life business
Property& fire insurance	24 % of non-life business

Source: ICMIF

Mutuals serve over a billion members and employ over a million people (ICMIF). About 80% of members/policyholders of mutual insurance are located in Europe and North America.

Mutual insurance is seen as a way to build resilience in communities and developing insurable populations by providing financial education, risk reduction and affordable need-based insurance products in developing and underdeveloped countries (icmif.org). The mutual model is prevalent as a risk-sharing mechanism in the informal sector in rural and poor areas of South Asia and Sub-Saharan Africa. These organisations have a local presence and operate at a small scale and their sustainability is questioned, especially when faced with covariant risks (Dror, Majumdar and Jangle, 2019; Radermacher, Singh and Srivastava, 2010).

Need for the Study

India is one of the five emerging market countries selected by ICMIF to grow Mutuals and Cooperatives and Community based Organisations (MCCOs) because of its large uninsured population, microinsurance focus and the strong presence of ICMIF members on the ground within the region. (III, The missing chapter of microinsurance in India, 2017). The potential for establishing mutual and cooperative insurance in India is immense, with over 600,000 cooperatives and a membership of over 250 million. Mutuals and cooperatives encourage low-income families to engage and have become the primary financial inclusion model in the design and distribution of specific goods and services. A regulatory framework conducive to development will go a long way toward realising this potential. A regulation that can delicately balance the solvency requirements of risk carriers with the risks of realistically covering the lives and livelihoods of the poor will create space for small organisations working on insurance inclusion.

The Regulator IRDAI took an essential step in this direction by forming a committee to suggest changes for the inclusion of stand-alone micro insurance institutions. In its report named 'Report of the Committee on the Standalone Microinsurance Company (2020)', the committee observed that India needs to improve access to insurance by introducing multiple players. This observation will lead to a substantial increase in insurance penetration. This need became glaringly crucial in the COVID-19 pandemic when millions of Indians, especially in the informal sector, lost their livelihoods, leading more vulnerable lives and falling back into poverty. Experience from countries such as the Philippines, South Africa and China shows that supportive regulatory frameworks and technology can go a long way in increasing the penetration levels of insurance (SAMI Report, IRDAI, 2020).

Various studies from the Indian market have identified about two dozen mutual insurers in India covering more than two million underprivileged populations. However, the Insurance Law does not recognise these mutual insurers as insurers. These organisations have maneuvered their existence by maintaining compliance through the regulators registered as financial institutions/NGOs.

The cooperative movement is powerful in our country and is prevalent in producer-driven manufacturing industries. India has many milk cooperatives like Amul, Banas, and Dudhsagar. It also has Agricultural cooperatives like The National Agricultural Cooperative Marketing Federation of India (NAFED), Indian Farmers Fertiliser Cooperative Ltd. (IFFCO), and Krishak Bharati Cooperative Ltd. (KRIBHCO). In the financial services space, the banking industry in India allows cooperative societies to offer lending services by collecting savings and deposits from their members.

Scope of the study

This study aims to examine the landscape of insurance mutuals and cooperatives across the globe and draw insights and learnings for India.

We identified and organised the study around the dimensions, namely, mutual and cooperative culture, history and evolution, regulatory environment, support and protection to insurance

mutuals capital and solvency requirements, the performance of mutuals vis a vis other competing entities and technology use.

The mutual and cooperative culture was examined around the history and evolution of mutuals in the country and whether mutuals and cooperatives exist in other areas/activities. Information was collected around the nature of existence, the spread of these organisations and who took initiatives to develop them, whether it was people driven or the main driving factor was government initiative. We also attempted to collect information about the percentage of the population covered and the geographical distribution of these entities. This dimension gave a perspective of the social economy in the countries, which led to the success of insurance mutuals.

The regulatory environment is expected to play a significant role in the development and spread of mutual insurance. This dimension originated from the inquiry about the Indian landscape. Despite examples of the successful cooperative movement, strong presence of cooperatives in the banking sector, and a few successful models of community-based mutuals in the informal sector, why does India not have any insurance mutual and cooperative? The study of literature on mutualisation and demutualisation, the impact of the European Union standard insurance code and the adoption of the solvency regime indicates that the law of the land greatly influences the characteristics and modus operandi of mutual insurance across the globe. We tried to understand the regulatory environment around the parameters - the presence of entry and exit, regulation around product filing, capital requirement, public disclosures, and compliance requirements. However, we faced limitations in developing this dimension for each country as the available studies have limited information around these parameters.

A long dialogue with regulators and experts in the field of insurance has indicated that governance of insurance mutuals is foreseen as a significant challenge. The study of this aspect is important from the point of view of a country like India, wherein a majority of customers and low-income population insurance awareness is limited. Understanding these aspects will have a futuristic impact on the development of the Indian regulatory environment.

The study of the environment in which mutuals have grown also indicates that as the insurance market becomes competitive and regulatory leniency towards mutuals reduces, these organisations have to change their approach and strategies to compete with stock companies. In this process, the mutuals grow in size and become more like stock companies in their operations and approach. An excellent example of these changes is seen in the insurance market of the USA. These changes also trigger demutualisation. In some markets, large-scale consolidation of mutuals is also observed. European markets have seen demutualisation and consolidation in the twentieth century, especially after countries joined the European Union. In this background, a study of the existence of mutual insurance companies' vis-a-vis joint stock insurance companies and the impact of stock companies on mutuals is essential. This study examined the parameters like the coexistence of other stock insurance companies / Govt insurance companies. However, data availability was a major limitation in making a conclusive remark in this direction.

Technology will define the growth of insurance organisations in the future, and it will be a differentiating factor for efficient organisations. The role of technology is also emphasised in improving accessibility and reducing TAT and cost. It will be necessary for mutuals and cooperatives to adopt technology to remain relevant, and it will also play an essential role for future organisations. Examining the adoption of technology by insurance mutuals and cooperatives is imperative.

These dimensions were examined around a few parameters to arrive at the conclusion that the country can be considered high, medium, or low on these dimensions.

2. MUTUAL INSURANCE IN EUROPE

Europe has the highest concentration of mutuals in the world. Approximately half the insurance firms in Europe are mutuals, cooperatives, or subsidiaries. It had about 2800 mutuals in 2017. One-third of all insurance business in Europe is placed with entities that follow the mutual/cooperative model. They represent approximately 400 million members/policyholders underwriting more than €400 billion in insurance premiums. The market share of mutual has been increasing over the last decade. Mutual and cooperative insurers in Europe are involved in all lines of insurance and pension business. They range from some of the largest insurers in Europe, providing insurance to commercial and personal customers across many types of products and several countries, to some of the smallest, offering specialised insurance to a specific group of members(amice-euorg). The European countries have a long history of insurance mutuals. Considering the people-centric approach of mutuals, they get protectionist treatment in the insurance law and by the governments. However, after these countries joined the European Union, they had to realign their regulations of mutuals to follow the unified Code of EU. This realignment resulted in the consolidation of mutual business.

Table 3: Mutual Insurance in Europe

Country	**Total Market Share**	**Market Share (millions$)**	**Percentage of Europe**
Austria	59.90%	14,269	4%
Finland	56.20%	17,224	4%
Netherlands	55.90%	37,905	9%
Slovakia	53.40%	1,131	0%
France	51.80%	1,06,807	26%
Denmark	48.10%	13,728	3%
Germany	47.30%	1,06,124	26%
Sweden	45.30%	8,644	2%
Hungary	43.60%	948	0%
Europe	**23.90%**	**4,05,700**	

Source: ICMIF

2.1 France

In France, two types of mutuals exist. The first one is "mutual insurance companies" (Société d'assurancemutuelle, called SAM) which are regulated under the Insurance code ("Code des assurances"). The mutual companies work in all business lines, life and non-life insurance. The second type of "mutuals" (calledmutuelles), are mainly involved in complementary health insurance and sometimes compulsory statutory insurance. These mutuals follow the French Code of mutuality ("Code de la mutualité").

Mutual insurance is present primarily in the general health insurance scheme (régime général), covering employees in commerce and industry and their families, and the agricultural scheme covering citizens working in agriculture (MSA). Many mutuals are organised along occupational lines – for example, the largest ones cover groups of public sector employees such as teachers or postal workers, and others draw their membership from individuals living in a particular area or district.

The State takes a good amount of interest in running mutual insurance business by taking responsibility for the financial and operational management of the funds by setting premium levels and prices for services. France has many large mutuals, with a large employee and membership base. They have about 40% market share, compared to 18– 25% for the rest of the EU (AMICE, 2011, 2012).

Mutual and cooperative culture

The mutual and cooperative culture can be considered high, considering the prolonged and widespread presence of mutuals and cooperatives. Mutual health insurance flourished in France in the mid-19th century. The concept of "mutual enterprise" as a specific legal entity based on the principles of solidarity and democratic governance was included in Civil Codes or special law in France in the early 19th century. In 1900 about 13000 mutuals were covering over 2 million people. France saw the creation of over 40,000 mutuals in 40 years at the beginning of the 20th century. Favourable social laws such as workers' compensation and State grants helped in the formation of these mutuals(icmif). By World War II, about two-thirds of the population in France had coverage for illness under mutuals. Mutuals garnered considerable political and economic importance in this duration. Mutuals played an important role in developing private health insurance in France. As a result, mutuals participated in the management of public health insurance which worked as a part of the Social Security system.

France has a solid presence of mutual and cooperative culture naturally extended to insurance. France is a leader in Europe, and the western world, in terms of the importance of its social economy. Insurance Mutuals in France are considered a social economy enterprise, which is a French concept designating not-for-profit organisations in the private sector that serve a social mission and observe democratic principles. Mutualsin France operates in varied areas and provides facilities like pharmacies, optical care clinics and retirement homes.

France is also home to a specific group of "mutuals without intermediaries" (mutuelles sans intermédiairesor MSI) which emerged in the mid-20th century and profoundly transformed the dynamics of competition in insurance markets in the property and casualty sector. MSIs adopted a distribution method of direct sales rather than using intermediaries, namely, insurance brokers or agents who work on a commission basis. MSIs followed a business model based on direct selling, risk selection, and standardised management of claims processes. They heavily influenced the insurance market by offering insurance 25–30% below the average rates quoted by traditional insurers.

Non-profit mutuals account for nearly 60% of the market for complementary health insurance. As per the data available, in 2000, 1275 mutuals covered at least 3500 people. Among this group, 565 account for over 90% of benefits paid by mutuals. According to another report, European Union mutuals covered 7 million people with compulsory health insurance in France and covered more than 50 % of the French population (38 million) under complementary health insurance by 2015.

Regulation For Insurance Mutual

Mutuals in France are among the most regulated in Europe for democratic governance and non-profit seeking (AISAM, 2006). The same legal Insurance Code governs mutual and non-mutual insurers in France. However, mutual insurance companies are recognised as a special case within this Code, and they are non-profit partnerships with no capital and no shareholders.

Mutuals acquire or create subsidiaries in the form of share companies to expand to other business lines or jurisdictions. The creation or acquisition of stock subsidiaries by mutuals does not alter the non-profit purpose of the organisation since the parent company holds 100% of the stocks.

Any company from France, EU or non-EU countries has to take an insurance license from Regulator to start operations. However, insurance companies registered in other EU states can conduct insurance business in France under the same license. Mutual insurance companies must submit the terms of the constitution of the "establishment fund" while applying for a license. The minimal number of members needed for establishing a mutual insurance company (SAM) is five hundred in France.

A strict procedure is prescribed for the mutual insurance companies for dissolution and exit from the business. The decision of closure is to be taken in a well-advertised general assembly. The remaining assets need to be distributed to a similar not-for-profit mutual entity following the 'asset protection system' procedures.

According to the European life and non-life insurance directives, the capital requirement for non-life companies is 2.5 million euros and 3.7 million euros for a life company. Apart from capital requirements, the mutual insurance companies in France are also required to have an initial foundational capital, primarily working capital needed for the foreseen activities for the initial five years. The minimum amount for mutual insurance companies (SAM) with variable premiums ranges between 0.25 million to 0.4 million euros. However, no initial fund is required for fixed premium insurance. The foundational capital for mutuelles is 0.22 million euros for non-life businesses and 0.38 million euros for life businesses. Under the mutual code non-member, investors can infuse external capital in Mutuelles as subordinated loans or guarantee capital.

Protection For Insurance Mutual

The literature suggests that encouragement of State and favourable laws played an essential role in establishing and developing insurance mutuals. As per the ICMIF report, favourable social laws and state grants helped the establishment of mutual at the beginning of the 20th century. As the market evolved and matured, these mutuals became more competitive, and the laws and regulators became 'business model neutral'. Especially in European Union, the adoption of a uniform insurance code by all member countries played an important role in neutralising the regulation of the insurance mutuals.

Commercial insurers entered the French complementary insurance market in force in the 1980s. Prior to that, mutuals had dominated the market. Commercial insurers did not impact mutuals specialising in collective contracts to closed groups. However, they posed a direct challenge for mutuals that did most of their business in the individual market. They faced the possibility of adverse selection as lower-risk consumers gravitated toward the lower prices offered by commercial insurers. This adverse selection led to the adoption of variable prices based on characteristics of customers, like non-group prices according to subscriber age.

The mutual insurance companies in France, the mutuals were exempted from corporate tax and business tax from 1945 to 2012. However, the legislation changed in 2021 to align with the European Commission's rules on State Aid. Following this, mutuals were gradually brought under the uniform taxation regime, and the taxation became at par from 2014 onwards. As per the Insurance Code, three corporate structures can carry out insurance business in France, and all three types of insurers are generally subject to the same regulations.

Governance of Mutuals

The board members of mutuals hold top positions, having political power. The Director General and the board of directors, the representative of members, are identified through the multilevel election process. r They determine strategy and control its implementation.

The wage-earning staff members of the mutual have separate mandatory representation on the board.

Initially, all the directors were voluntary members. However, after a change in regulation in 2005, they get compensated for the services rendered. In some organisations, directors continue to be voluntary members. Some mutual insurance companies have specifications about eligibility for board members to conduct some specific activities. In such cases, there is a provision for the election of non-member directors to fulfil these requirements. The number of non-member directors is restricted to one-third of the Board composition.

Members or customers are owners of the insurance mutuals. Every member has equal voting rights to elect representatives to governance positions. However, as the mutual grows in size, an increasing number of customers lose membership rights. As the complexity of the governance system increases, the distance between the insured and the board of directors widens.

The volunteer members' representatives participate in the functioning of the mutuals.

Performance of mutuals vis a vis other competing entities

Historically, mutual insurance in France has a distinct orientation of mutual aid and solidarity, maximising the benefit to members. Because of this, they make minimal use of risk-rating or risk selection strategies. Traditionally, many mutuals defined premiums as a percentage of income.

Mutuals use fewer age categories for pricing compared to commercial carriers. They are prohibited under the regulation from using other variables used by commercial insurers, such as sex or health status. Individuals who initially enrol in mutuals at an advanced age are required to pay a surcharge, and older consumers of 65 years or older are prohibited from enrolling in certain contracts. Both types of carriers use waiting periods for certain types of care. For example, most contracts do not cover pregnancy-related care for the first 9 or 10 months of a contract. Also, most mutuals offer a range of contracts with varying benefits. However, they have limited offerings compared to private insurers (Buchmueller & Couffinhal, 2004). Surpluses generated by mutuals are returned to the members through discounts on membership fees.

Mutuals are financed almost entirely by payments and fees paid by subscribers, and complementary health insurance is their main line of business, representing 95% of outlays in 2000. Tax incentives are available in private health insurance if it is provided through employers, and because of this, half of all private health insurance contracts are provided by employers. Compared to their joint-stock competitors, mutuals are often small, locally based organisations that focus on a limited number of business lines.

2.2 Germany

There were about 900 mutual insurance companies in 2017 in Germany, which held about 47% market share. Mutual premiums account for 58% of total life business in Germany (ICMIF). In Germany, mutual insurers collectively held USD 852 billion in assets in 2017. Mutual insurance companies are amongst the largest insurance companies in Germany, and Rebeka and Signal-Iduna are among the ten largest companies. HUK-Coburg, Gothaer, Alte Leipziger-HallescheandContinentaleVersicherungs-Verbund are other mutual insurance companies in Germany.

Germany has two types of Mutuals – 'insurance mutual' (Versicherungsverein auf Gegenseitigkeit) and 'small insurance mutual' (KleineVersicherungsvereine). The insurance mutuals, also known as mutual insurance association, are allowed to carry out both life and non-life business. The small mutuals, also called 'county mutuals' can carry out only non-life business for a specific group of people or particular risks and are organised locally.

Mutual and Cooperative Culture

The insurance business in Germany started with mutual insurance in the sixteenth century, and they typically provided fire insurance to members of specific groups. Many mutuals were

created in all insurance lines during the second half of the nineteenth century (Maurer &Somova 2007).

County Mutual Insurance Associations were formed in the late 19th century to provide financial protection from the risk of fire to farmers. These associations were formed because of the unavailability of quality and affordable insurance services in distant parts of the country. County Mutual companies were more able to provide local service at affordable premiums by insuring friends and neighbours in local communities. These associations indirectly benefited the local economy as they generated employment. County mutual insurance associations have survived the test of time, providing stability and security to member policyholders.

After the Second World War, Germany underwent major financial sector reforms like most European countries. These reforms established public social insurance schemes or national health services to guarantee protection against the main social risks and provide a safety net for citizens. These developments challenged the traditional role of mutual societies, especially in health insurance. Mutuals were integrated into the public system governed by new public law (Krankenkassen). These health mutuals lost their originality since their ownership shifted from the policyholders to the Government. After these reforms, mutual insurers offer only complementary health insurance policies to substantiate the public insurance scheme.

Regulation for Insurance Mutual

Mutual Insurance in Germany is established as an association of local property insurance companies in counties authorised to operate under a separate insurance code. County mutual companies are allowed to write business in their County of domicile and all contiguous Counties.

The Federal Government and the Federal States have combined responsibility for insurance supervision. The central supervisor of Germany is an integrated financial supervisor named the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht –

BaFin). BaFin supervises private and public insurance undertakings with multi-state existence and operations at the national level. The supervisory authorities of the Federal States are responsible for supervising public and private county mutual companies, which are smaller in size and whose activities are limited to the Federal State.

BaFin can grant a license to a joint stock company, a European company (SE), a mutual association or a corporation under public law. BaFin follows the principle of segregation of business, and life and general insurance companies need separate registration to carry out their business.

The Minimum Capital Requirement depends on the class of insurance. In addition, the company has to prove that it has sufficient funds to develop the business and sales.

Protection for Insurance Mutual

In the German market, there is no difference between joint-stock companies and mutual insurance entities, and both are active in the market under the same conditions (ICMIF). Both

large mutual insurance and county mutual insurance companies are governed under Insurance Supervision Act vis-a-vis stock companies. There is no statutory protection available to mutual insurance companies. However, the county mutuals have separate statutory requirements based on their line of business and the types and quantum of risks they carry.

There are no special protective regulations against demutualisation in Germany like in France. A merger of two or more insurance mutuals and an insurance mutual with an insurance joint-stock company is allowed under the law. However, acquisition of an insurance mutual by another organisation is not permitted. Conversion of another legal form, like a joint-stock company, into an insurance mutual is not permitted under the law.

Mutual insurance has a similar capital requirement, solvency requirement and minimum guarantee fund requirement as joint stock companies. However, as the county mutual insurance companies are non-Directive insurers, they do not have to comply with the requirements of the minimum guarantee fund.

Governance

The member-policyholders democratically control mutual. Both mutual insurance and joint stock companies have the same corporate structure. It consists of three corporate bodies- 1. management board which manages the company on an operational level, 2. supervisory board, which monitors and controls the operational work of the management board and 3. supreme representation or general assembly. Two third of the members of the supervisory board must be employees. The general assembly is a convention of the members of the mutual or of members' representatives. Mutual insurance associations are governed by the assembly of all members or an assembly of delegates of the members. The general assembly has supreme authority and takes strategic decisions.

In Germany, any two persons can establish a mutual by agreement on the statutes/articles of association and the appointment of the executive board and the supervisory board. Mutual policyholders own and control local companies through an elected board of directors. Annual policyholder meetings are held annually to elect directors, review annual financial results, and discuss any other business that might be brought before the meetings.

The rights of members are laid down in the statutes of the insurance mutual (Versicherungsverein auf Gegenseitigkeit). Generally, there is an inseparable relationship between member and policyholder. Generally, membership in a mutual insurance association is acquired simultaneously as signing an insurance contract. No special membership fee is required. Only exceptionally non-member business is also permitted if it is included in the article of association.

Performance of Mutuals Vis A Vis Other Competing Entities

Mutual insurers have formed horizontal groups and associations to face competition in the market. A holding company in the form of a mutual insurance association is often created in Germany with wholly owned subsidiaries as stock corporations.

2.3 Netherlands

The Netherlands has a long history of mutuals. However, mutuals lost relevance with the emergence of the welfare state as Government took the responsibility of risk management of people by providing universal health care and other services. Mutuals gained momentum again in the 1990s when the Dutch Government withdrew from disaster relief and called for private sector solutions. Various mutuals were introduced after that as a response to several catastrophic events, including extreme weather and disease outbreaks. As a result, compulsory health insurance is almost entirely run by mutual insurance companies. In the Netherlands, the market share of mutual companies is above the average of the European Union mutual share in the market. Some studies observe that adopting mutuality principles has helped companies in the Netherlands maintain their solvency.

Mutual and Cooperative Culture

The Netherlands has a strong history and mutual and cooperative culture, which helped in the development of current mutual insurance. In 1663, insurance mutual for mills was the early form of mutual insurance organisation in the Netherlands. Mutual insurance regulations were initiated between 1850 and 1900 and legal provisions were introduced as company law was modernised in the Netherlands. Mutual insurance is present in the form of mutual insurance societies in the Netherlands.

Historically, all health insurance providers in the Netherlands are mutual and cooperative insurance societies. Mutual insurance societies / cooperatives still dominate the health insurance sector, and these cooperatives are holding companies of mutual companies and joint stock companies collaborating together.

Regulation For Insurance Mutual

Two types of mutual insurers are identified in Netherlands – 1. The large mutuals are licensed and regulated under the insurance code, 2—the small mutuals are not licensed and do not fall under the preview of the insurance regulator.

Mutual insurance companies are allowed to participate in all business lines of life, non-life and compulsory health insurance. The mutual or mutual type organisations are governed under separate legislation similar to cooperatives, and mutual insurance companies follow a tax regime similar to stock companies.

Governance

In Netherlands, insurance law allows mutual-type organisations to have non-member investors and external capital in subordinated loans or guarantee capital. The law does not provide any protection of assets in case of dissolution or demutualisation. Mergers of entities are legally restricted in the law, and entities can merge only with entities of the same legal form. So, a mutual can be merged with another mutual. However, a joint stock company, of which all shares are held by a mutual or cooperative, may merge and become a joint stock company.

Similarly, a mutual with a public limited liability company as its only member may merge and become a public limited liability company.

Protection for Insurance Mutual

The other category of small mutual insurers with low risk, small membership base, and low turnover do not fall under a regulatory or financial supervision regime. These mutuals cannot write accident, health, liability, credit and suretyship, and assistance insurance.

There are three categories of small mutuals based on membership base, turnover, and business lines they are eligible to operate. The smaller one can have as few as 200 members and write only one business line in non-life insurance. The largest of this category can have a maximum of 3000 members and operate in only select lines of business, with up to 5 million Euros gross written premium. These mutuals have to file papers based on legal requirements, which are lenient compared to the requirements of insurance companies and large mutuals. The Regulator releases a declaration to the mutual society to conduct business after scrutiny and due diligence.

The Netherlands has adopted a two-tier board model for mutual and stock companies, and this structure separates the executive and monitoring/supervisory functions of the board.

The supervisory board comprises non-executive supervisory directors who are members of the mutual associations.

The management board consists of executive managing directors, and the executive managing directors are not entitled to have a position on the corporation's supervisory board.

3. MUTUAL INSURANCE IN ASIA

Mutuals in Asia and Oceania led by developed countries like Japan generated 16.8% of total global business (ICMIF). The mutual sector serves 158.5 million policyholders in the region. Life and pension, and annuities cover about 98% of the business by mutuals in the region. Asia and Oceania are the only regions where mutual market share is more significant in the life sector than the non-life sector. Mutual insurers held a 15.2% share of the regional life market in 2017 compared to 9.5% in the non-life business. The contribution of motor insurance to total mutual business was 16%.

3.1 Japan

Japan is one of the leading countries in the insurance market development, and Japanese life insurance is the second largest in the world.

Japan has a strong history of mutuals and cooperatives in the insurance space. Mutuals and cooperative insurers in Japan command a 42% market share in the total insurance business (ICMIF, 2017). Mutuals contribute 84% of the region's premiums and 26% to the global market. Cooperative Insurance has a broad and deep presence in Japan, and they play an essential role in the economy of Japan.

Japan is the second largest mutual market in terms of asset values after the USA, and it is also one of the biggest employers in mutual insurance, with 0.2 million employees.

Japan has a robust mutual and cooperative sector institutionalised at three levels of administration like the Amul model. It draws strong support from the State regarding sovereign guaranty and administrative expenses.

The mutual aid companies are called Kyosai in Japan. In kyosai, the members share their premium to establish mutual assets/fund, which is used to pay compensation at unexpected contingencies. The compensation covers the financial deficit in the event of death, hospitalisation, house damage or traffic accidents. The mutual business is organised around various livelihoods like fisheries, agriculture, small businesses, consumer cooperatives, motor insurance etc. The Kyosais serve their 78 million members (62% population) with 130 million policies.

In Japan, Kyosais are governed under the Agricultural Cooperative Society Law, Fisheries Cooperative Association Law, Consumers' Livelihood Cooperative Society Law and Small and Medium Sized Enterprise Cooperative Act. The regulators for these Kyosais are the respective ministries of the Government, namely, the Ministry of Agriculture, Forestry and Fisheries, Ministry of Health, Labor and Welfare, Ministry of Economy, Trade and Industry, and others. The Kyosais have to follow the insurance law enacted by the parliament.

Japan has three types of insurance organisations - Stock Companies, Mutual Companies and Cooperatives. There are 44 life and 55 general insurance companies. Out of these, five companies are mutual life insurance companies. However, there are no mutual general insurance companies registered with the Regulator. Mutual aid societies and cooperatives carry out the non-life business along with other joint-stock companies under separate regulatory space. The insurance companies and mutual insurance firms operate as standard insurance companies for all practical purposes. Cooperatives are local people's bodies organised for welfare and supported by the Government.

Mutual and Cooperative Culture

The Japanese Insurance market has an early history. Tokugawa Shogunate mutual aid systems are known as the early form of insurance in Japan. The oldest of these was the ancient agricultural mutual benefit systems believed to have existed from around3 BCE and 'five families mutual aid' in 652 AD. More advanced forms of marine, fire and life assistance also existed during the Tokugawa Shogunate age between 1603 to 1867. Foreign companies in the 1870s introduced the current form of insurance.

In Japan, Mutuals are more active in agricultural insurance and play a significant role in farmers' financial security. It is carried out on a combination of cooperative and mutual model, with state support and based on Agricultural Insurance law. They work as agricultural mutual aid organisations known as "NOSAI Association". The national level body, National Agricultural Insurance Association, supports NOSAI associations in their development and growth. The local farmers' cooperative initiates NOSAI associations by establishing a joint reserve fund of contributions by farmers, which is used for claim settlement. The Government bears a part of the operational expenses of these organisations.

Cooperative insurers operate in all lines of business. They offer services in Fire, Life, Personal Accident, Automobile (including Compulsory Automobile Liability) and Annuity insurance.

The leading cooperative insurers have 77 million members, which is 62 % of the population of Japan. They serve 135 million insurance policies. The amount insured in 2017 was 845 trillion yen, and the reported premium income was 6.5 trillion yen. The cooperative insurers paid claims worth 5.1 trillion yen in the year 2019. Their total assets are 65.7 trillion yen (Co-operative Insurance in Japan Fact book 2020 and NOSAI).

Regulation for Insurance Mutual

In Japan, the Insurance business is regulated by the Japan Financial Services Agency. (https://www.fsa.go.jp). Insurance Business is governed by the Insurance Business Act (Act No 105 of 7 June 1995). Insurance companies operate under the Insurance Act of the Regulator. The regulation follows the separation of business policy, according to which the Regulator grants a separate license to the life insurance business and the non-life insurance business.

Cooperative Insurers operate with the help of district administration (known as Prefectures) under cooperative laws. There are four cooperative laws: Agricultural Cooperative Society

Law, Fisheries Cooperative Association Law, Consumers' Livelihood Cooperative Society Law and Small and Medium Sized Enterprise Cooperative Act.

Cooperative insurers in Japan are classified into two categories- "organisations based on special laws" and "organisations not based on special laws". Furthermore, "organisations not based on special laws" are separated into "organisations based on cooperative laws" and "organisations based on others". "Organisations based on special laws" are providing indemnity services for agricultural products and fisheries as a kind of social security measure.

The minimum capital requirement, including the reserve for the redemption of funds for an Insurance Company in Japan, is one billion Yen. (fsa.go.jp). Japan has adopted a risk-based capital model similar to the US for calculating solvency margin. The Regulator (FSA) continuously monitors and regularly inspects all insurance companies. The performance of companies is monitored based on the solvency margin ratio. The minimum solvency requirement is 200%. Insurance companies are required to furnish reports of financial performance regularly. The regular reports required to be filed with Regulator are 1. Profit breakdowns and their projections 2. The concentration of major credit exposures,3. Impact of price fluctuation of securities, etc.4. Asset portfolio and trend of policies. FSA requests further reports and sometimes issues orders for furnishing reports, even if the solvency margin ratio of the company is well above the regulatory minimum. If the solvency margin ratio is less than 200%, it triggers various prompt corrective actions by the Regulator. Every insurance company's solvency margin ratio and components of the solvency margin ratio are periodically disclosed to the public.

Protection for Insurance Mutual

The mutuals and companies are regulated at par. There is no specific protection for mutuals in Japan. There is no difference between a Stock Company and a Mutual Company regarding capital requirements. Instead, all the Act provisions applicable to Stock Company mutatis mutandis apply to a Mutual Company with a few exceptions. E.g., a shareholder is a member, and General Body Meeting is referred to as Organization Meeting in the case of mutual companies. The minimum member required to set up a Mutual company is 100, as per the regulation.

The Act provides provisions governing the election of directors, voting rights of members, and contracts of Organisations. Similarly, there are provisions on the issue of closing down the mutuals, merges and conversion from mutuals to stock companies.

Technology Use

It is noted that technology adoption is high in the Japanese insurance industry, and Japanese companies have started adopting new tech like IoT, Big Data & AI. Some examples of the adoption of technology are the installation of a 'Driving Counter' in cars used to assess safe driving habits and offer discounts. In 2021, the Government amended the Insurance Business Act to facilitate the adoption of technology by insurance companies. The new act allows insurance companies to own subsidiaries that provide IT and other technology to enhance insurance activities and customer service.

3.2 China

Mutual insurance penetration is currently very low in China. China came with a new mutual insurance law that enabled licenses for mutual insurers to be issued by the China Banking and Insurance Regulatory Commission (CBIRC). The first mutual insurer under this law began operations in 2017.

Chinese Tech giants like Alibaba, Tencent, Didi (Taxi aggregator) and Food delivery giant Meituan entered the mutual aid business towards the end of the last decade. They used crowdfunding and the internet to gather people who face a similar type of risk. They used their strong technological prowess and leveraged their communication capabilities to enrol a large number of people in a brief period. Most of the mutual aid platforms were into covering health risks. These initiatives were highly impacted by the new regulation brought by the Government to protect the interests of the policyholders. After these changes, many of these insurers closed their operations. Currently, Chinese mutual insurance appears to be a highly dynamic space with frequent changes and emerging trends. However, mutuals have a long history in China.

Mutual and Cooperative Culture

The early evidence of mutual insurance in China was found in 1000 BC. There were many mutual aid organisations during Qing Dynasty in the form of funeral societies, longevity associations, parents Xuan, family welfare associations etc. After the opening of international business in the mid-19th century, the concept of modern insurance evolved slowly in China. In 1856, China Mutual Insurance Company was established in Fuzhou. In 1898, a British merchant established China Mutual Life Insurance Company in Shanghai. In 1905, a fire mutual insurance company was established in Guangzhou (Xie, 2016). However, due to the lack of actuarial knowledge and the impact of wars, most of the mutual companies were closed in a short period (Gege Nie,2021).

Regulation for Insurance Mutual

The insurance industry in China is regulated by China Banking and Insurance Regulatory Commission (CBIRC). The insurance business is governed by The Insurance Law 1995 of the People's Republic of China, which was amended in April 2015. China has a total of 235 insurance companies.

Currently, mutual organisations are regulated through 'Trial Measures for the supervision of Mutual Insurance Organizations' notified in 2015. The Measures have guidelines on General Provisions, Establishment, Membership, Organisational Structure, Business Rules, Supervision and Management and Supplementary Provisions.

A mutual can be set up by main sponsoring members and general sponsoring members. The minimum number of main sponsoring members required is 500. The main sponsoring members are responsible for raising initial operating funds, and the general sponsoring members promise to participate in the insurance and become members after the organisation is established.

It is observed that the Government supports mutuals by a lesser capital requirement than insurance companies, which require a minimum capital of 200 million Yuan. The minimum capital requirement for setting up a mutual is 100 million yuan and initial operating capital of not less than 10 million yuan. The mutual should conduct special business for specific risks, or its business area must be limited to the administrative divisions below the prefecture level.

CIRC introduced a new solvency regime known as the China Risk-Oriented Solvency System (C-ROSS) in January 2016. C-ROSS II was issued in December 2021 and will be implemented in the first quarter of 2022. Solvency control is a risk-based system.

Technology Use

China has good examples of tech-enabled insurers and Insurtech start-ups in the recent past. The traditional insurers are also following the trend of use of new age technology. Chinese Tech giants like Alibaba, Tencent, Didi (Taxi aggregator) and Food delivery giant Meituan entered the mutual aid business. They used crowdfunding and the internet to mobilise those facing similar risks. Their strong technological prowess and leveraging the communication capabilities enabled them to include a large number of people in a very short period. Most of the mutual aid platforms covered health risks.

A notable example is Ali Baba's, Xiang Hu Bao. Xiang Hu Bao, which literally means "mutual protection", was launched in October 2018 and provided its participants with a basic health plan against 100 types of critical illness, including thyroid cancer, breast cancer, lung cancer, critical brain injury and acute myocardial infarction. All participants shared the risk of becoming critically ill and carried the related medical expenses collectively. Xiang Hu Bao was a complimentary health product which substantiated premium health insurance offerings in the market. On the Xiang Hu Bao platform, Alipay's proprietary consortium blockchain technology powered the entire evidence submission process, which ensured the process was tamper-proof. Once claims are approved, the participants will receive a one-time payout of up to RMB 300,000 (~US$43,000), the cost of which was shared equally by the other participants. Disputed claims were escalated to an online review board of qualified volunteer participants. At its zenith, the online platform had 100 million members and had issued 186000 claims.

These platforms were unregulated, and they had a free run. The CBIRC brought the Measures quoted above to closely monitor the performance of the online platforms to protect the interest of all in the long run. It required the online platform companies to get registered and obtain a license. The platforms were brought under tight regulatory provisions. The Measures were also intended to check unhealthy competition because of a raft of consumer complaints.

Afterwards, 200 Chinese cities launched a government-backed customised inclusive commercial insurance product, Hui Min Bao, to local citizens, which was cheaper and covered more sicknesses at affordable costs. Because of the dwindling profits and newly brought regulations, many online platforms closed their business, and Ali Baba's Xiang Hu Bao wound up its business in December 2021.

Nevertheless, online insurers continued to operate with a growing market share. For example, Guohua Life is one of China's largest online personal insurers, with China Post Life Insurance and ICBC Axa Life. In 2021, Guohua Life's insurance had a market share of 8.7 per cent in the Chinese online personal insurance market. Their insurance premiums amounted to almost 26 billion yuan in the same year.

The personal insurance side of the online insurance segment is in the hands of the old guard, whereas property insurance is led by the start-up ZhongAn. With the use of artificial intelligence, big data, and machine learning, ZhongAn made pricing more efficient and undercut the competition. Over the past four years, the company could quadruple its revenue.

Traditional companies are investing in their insurtech capabilities and start-ups to keep up with the trend. The insurance platform WeSure is an excellent example of how established companies support new companies. WeSure is an offspring of Tencent and is deeply embedded in the company's financial ecosystem. It also cooperates closely with traditional insurance companies PICC, PingAn, and Taikang Life. In 2020, the online insurance premium revenue was roughly 290 billion yuan in China, a more than 80 billion yuan increase from the previous year. The revenue was projected to grow further to almost 470 billion yuan in 2026, driven by the rapid development of the online insurance industry in China.

3.3 Philippines

The first mutual life insurance company in the Philippines was organised in 1957, Alpha Mutual Life Insurance, which no longer exists. Currently, there are 5 Composite Companies, 25 Life Companies,49 Non-Life Companies, one Professional Reinsurer, 3 Servicing Insurers and 33 Mutual Benefit Associations operating in the Philippines (2022). Mutual benefit associations (MBAs) have about 28% market share. Together MBAs have a member base of 0.8 million members with dependents numbering about 21 million.

Mutuals are well developed in the Philippines, primarily through MBAs. Mutuals have proved a great success in the Micro Insurance sector. Two types of mutual organisations exist in the Philippines- the cooperative insurance societies (CIS) and the Mi-MBAs. MI-MBAs have played an important role in financial inclusion. The insurance Commission introduced new regulations in 2006 for MI-MBAs. The CISs are regulated as commercial insurers under the same rules, and Mi MBAs are governed under a different Code under this regulation. The contributions of Mi MBAs and Regular MBAs are in the ratio of 40:60 in the market. The microinsurance sector has grown rapidly after the Insurance Commission introduced this new tier for Microinsurance Mutual Benefit Associations (Mi-MBAs) and defined microinsurance products in 2006.

The Cooperative Insurance Societies(CIS) and Micro Insurance Mutual Benefit Associations(MI-MBAs) are at the forefront of this phenomenon. Together they have more than 75% share in the microinsurance sector. After the introduction of MI-MBAsin 2006, the

sector witnessed tremendous growth. Microinsurance expanded from 3.1 million members in 2008 to 7.22 million in 2020, covering about 27 million.

The micro mutuals are allowed to offer basic life policies with bundled non-life cover. MBAs offer Basic Life Insurance and Credit Life Insurance on a group basis. However, they cannot offer Non-Life Insurance. Many offer credit shield policies which are mandatory for their group members. MI-MBAs are regulated separately and are offered relaxed capital requirements and tax-free benefits. CIS are regulated under commercial insurance rules but get tax benefits as Cooperative Societies.

Mutual organisations engaged in microinsurance are governed by a set of institutional regulations separate from cooperatives and commercial providers. All microinsurance providers need to obtain a certificate of authority before engaging in the practice of microinsurance from the Insurance Commission. Before applying for a certificate of authority, mutual insurance entities must be duly registered with the SEC, except for cooperatives that must register with the CDA.

Regulation for insurance mutual

The Insurance Commission, Philippines, regulates Insurance Industry in the Philippines. Mutual Benefit Associations (MBA) are governed by a separate provision of the Code relating to 'Mutual Benefit Associations and Trusts for Charitable Uses, Title 1, Mutual Benefit Associations'. A mutual benefit association can commence its business after securing a license from the Commissioner, and the presence of an actuary is mandatory to get a license.

The license is valid for three years and expires on the last day of December of the third year.

The minimum paid-up capital required to start an insurance business is one billion Pesos, whereas the Capital requirement for Mutual Benefit Associations is a Guaranty Fund of 5 million Pesos.

A stock insurance company doing business in the Philippines may transform itself into a mutual insurance company. Similarly, a domestic mutual life insurance company doing business in the Philippines may convert itself into an incorporated stock life insurance company by demutualisation. In both cases, the company has to provide and carry out a plan for the conversion by complying with the requirements of the respective clause of regulation.

A mutual benefit association can retain a surplus of up to twenty per cent (20%) of its total liabilities. As per the regulation, the excess amount needs to be returned to the members by way of dividends, enhancing the equity value or providing benefits in kind and other relevant services.

Every MBA is required to create and maintain a reserve liability with actuarial procedures for payment of claims and other obligations approved by the Commissioner. The Code also provides investment norms, the power to inspect and audit the books of the MBA and the submission of Annual statements.

It is observed that the Code provides separate provisions for MBAs with lower capital requirements to help the growth of the sector. At the same time, strict control and monitoring are imposed through provisions covering administration, inspection, audit and a provision to engage an actuary compulsorily. Thus the Code seeks to ensure the MBA's continued viability, security of members' funds, and protection of members' rights like voting rights.

The MBAs and Cooperative Insurance Companies also receive favourable tax treatment. The National Internal Revenue Code of 1997 (NIRC) of the Philippines exempts non-stock non-profit associations from paying tax on income they receive. The Mi-MBAs must apply with the Bureau of Internal Revenue (BIR) for a tax exemption certificate. A Mi-MBA is provided with a tax exemption status renewable every three years. The Philippine Cooperative Code of 2008 provides tax exemptions for registered cooperative insurance providers. Cooperatives who do not transact business with non-members or the public are not subject to any taxes and fees imposed under internal revenue and other tax laws.

4. MUTUAL INSURANCE IN THE USA

The insurance market of the USA is the world's largest insurance market by premium volume. According to Swiss Re publication,40.3 % of the $6.287 trillion global direct premiums were written worldwide in 2020, and $2.530 trillion were written in the United States.

There are three main insurance sectors:

- Property/casualty (P/C) consists mainly of auto, home and commercial insurance.
- Life/health (L/H) consists mainly of life insurance and annuity products.
- Health insurance is offered by private health insurance companies and some L/H and P/C insurers, as well as by government programs such as Medicare.

Table 4: Highlights of the Insurance Industry in the USA during the year 2020

Sectors	**Life & Health**	**Personal & Commercial**	**Health**
***Number of insurers licensed**	676	2,614	1,260
Direct premiums written	$767 billion	$717 billion	$834 billion
% to total industry premium written for the combined L&H, P&C, and Health sectors)	33 percent	31 percent	36 percent
Total Assets	$8.0 trillion	2.4 trillion	$515 billion
Capital and Surplus	$440 billion	$914 billion	$244 billion
Segments	life insurance and annuities accident and health (A&H)	personal lines (for individuals and families) commercial lines (for businesses)	sole health insurers health maintenance organizations

Source: Annual Report on the Insurance Industry (September 2021), Federal Insurance Office, US Department of The Treasury (2020)

History

The USA has had a long history of mutual insurance since the early 18th century. According to the website of Lawyers' Mutuals, the first insurance company in the USA was a mutual entity. "The oldest existing insurance company in the United States is believed to be The Philadelphia Contributionship for the Insurance of Houses from Loss by Fire, a mutual insurance company founded in 1752 by none other than Benjamin Franklin. (Khalamayer, Anya and Hemenway, Chad. "The Birth of Insurance." PropertyCasualty360.com. 19 April 2012. Web 20 June 2016.) The company is said to be the first insurance company founded as a mutual. Its founding principle is "whereby every man might help another without any disservice to himself." While today the principle would likely be gender neutral, it continues to embody the essence of mutual insurance companies (Dan Zureich, 2016).

Mutual insurance represents a large segment of the insurance business in the USA, and the country has 1800 active mutuals. It is the largest mutual market in asset values, with 3.1 trillion USD. Seven mutual insurance companies established in the mid-nineteenth century are still in business today and are among the largest of the mutuals. In some states and lines of insurance, mutuals insure more than half of the total market. In addition, they ensure at least 10 per cent of each reported line of insurance business and at least 25 per cent of premiums earned in each State.

Mutual P&C insurance in the USA

Mutuals cover about 50% of the US property/casualty (PC) insurance market.

The personal automobile business has about 70% of the premium share in total business done by mutual insurers, 30 % in homeowners, and 20% in workers' compensation and other liabilities.

Mutuals have a share of the total earned premium of about 80% of farm owners' coverage, 65% in homeowners' insurance, more than 50% in personal automobile and about 50% in medical professional liability in the USA.

California, Texas, Florida, and New York are the leading American states in terms of premium earned. Kentucky, Wisconsin, West Virginia, and Michigan are leading states in terms of mutual insurer share of premiums earned (NAMIC, 2017).

Life & Health Insurers

Unlike the P & C industry, mutual insurers play a secondary role in Life & Health insurance segment in the USA.

Table 5: Size of US Life Insurers, by Organisational Structure, 2020 (millions)

	Mutual	Total
Life insurance in force	$7,668,181	$20,425,609
Life insurance purchased	1,153,352	3,334,528
Assets	1,979,786	8,150,389
Benefit Payments	161,564	677,664
Premium income	158,197	635,645

Source: ACLI 2021 Life Insurers Fact Book

Fraternal benefit societies seemed to have begun in North America at the time of large-scale immigration into USA and Canada at the turn of the last century. The aim was to provide a modest amount of life protection to the members belonging to certain ethnic and nationality groups in the new country. Mostly, these fraternal societies are small and operate in only one jurisdiction.

The reciprocal insurance exchange can track its genesis[1] to 1881, when six dry-good merchants in New York agreed to indemnify each other because of discontent with insurance companies. These merchants had buildings of superior construction and maintained them in good repair but were charged premiums that did not mirror the potential losses for similar commercial buildings. Insurance companies of the time applied a broad brush in their risk classification because sophisticated rate-setting techniques were only in their infancy. Being moreover well-capitalised to absorb certain losses, the merchants had the incentive -- and ability -- to "self-insure" to lower costs. The mutual insurance holding company structure was first created in Iowa in 1995.

Organisational Forms

According to the Handbook of Insurance (G. Dionne, 2000) "The range of organisational forms within the insurance industry is perhaps the broadest of any major industry. Included are stock companies that employ the standard corporate form, mutuals and reciprocals that are more like cooperatives where customers are the owners of the firm, and Lloyds associations that offer insurance contracts by syndicates of individual underwriters." Federal Agencies also have their insurance operations in the marketplace.

"Many insurance companies are part of larger organisations. According to AM Best, "in 2019, the P/C insurance industry was comprised of about 1,107 organisations or groups (as opposed to 2,581 companies), including 632 stock (or public) organisations, 372 mutual organisations (firms owned by their policyholders), 86 reciprocals (a type of self-insurance) and six Lloyd's organisations. The remainder consisted of state funds" (www.iii.org).

Mutual (Organisational) Forms / Structures

The mutuals are primarily a form of self-insurance at the group level, and they are formed to take care of the risk mitigation/transfer needs of their members and not for profit.

There are a variety of forms in which mutuals can be organised.

As stock companies: Mutual life companies were often formed (Kenneth Black, 2013) initially as stock companies by organisers (who were prominent citizens in communities such as bankers, lawyers, physicians and others, to earn income by providing service to the new company) who subscribed for the initial capital with an expectation that the insurer would mutualise when it acquired sufficient financial stability, and the subscription capital would be redeemed to the organisers. Mutual was mainly organised to serve communities where the need for safe, affordable life insurance was perceived to be underserved.

Pure Assessment: These mutuals formed in the initial years seemed to have used this route. Members come together to share losses, and no premium is charged in advance from the members. The claims/losses are assessed retroactively after the policy period, and the members share total losses incurred by the mutual. Major drawbacks of this retroactive loss sharing model include fluctuations in the losses assessed from one policy period to another and

[1] xhttps://www.insurancethoughtleadership.com/commercial-lines/reciprocal-insurer-right-you

members' ability to finance the losses retroactively, leading to the uncertainty of business operations.

Alternative (to Pure) Assessment or Advance Premium Mutuals: In order to overcome the problems associated with pure assessment, the mutuals started charging premiums in advance. These are the commonly used mutual model.

Mutuals that issue assessable policies: In the initial years, if the advance premiums collected are less than the losses assessed at the end of the assessment period, the shortfall is allowed to be made good by the members, subject to a legal limit. It is necessary to have this arrangement to allow mutuals to have growth and financial strength. In policy periods, when there is a surplus (i.e. premiums received in advance are more than total losses assessed), the same is distributed among members in the form of dividends reduction in premiums in future years. This model also presents an uncertainty for its members as they cannot ascertain the ultimate outgo (advance premium + final assessment). Hence, instead of crediting the entire surplus to their members, mutuals started retaining a portion of the surplus for future growth.

Mutuals that issue non-assessable policies: Once the mutuals accumulate a surplus (the positive difference between its income and expenses) that would be adequate to demonstrate financial stability, the State (regulators) allow the mutuals to write non – assessable policies. Mutuals issuing non-assessable policies are the most common, as no higher premiums or levies are chargeable on the policies already sold to the policyholders. The deficit (negative difference between its income and expenses) in certain periods are met from the surplus of earlier periods. After the payout from the surplus to cover the deficit, premium adequacy reviews, using actuarial principles, are undertaken. Based on this review, the premium charged for future renewals is determined, and premium increases are imposed on the members. The objective is to restrict further outflows from surplus and preserve and grow surplus at a certain reasonable level. Similarly, the return of surplus to policyholders takes the form of -

- Reduced Premium; or
- Payment of dividends (to policyholders)

Factory Mutuals: This is a mutual insurance company[2] organised for the purpose of insuring factories and factory properties exclusively. They are commercial property insurers with expertise to guide their members regarding the construction requirements and safety controls with an objective to provide advice for preventing damage and controlling losses arising from fire accidents. The sum insured on the property is very high; however, the loss ratios for this specialised mutual are expected to be better than regular commercial insurance players. This mutual offering expert service's policyholders are the beneficiaries of the reduced premium or dividends.

Fraternal Mutuals: They are a special form of mutual insurance. They are organised as a non-profit association or corporation, with an objective to cover the risks of their members. They provide life and accident and health insurance to people who are members of social or religious

[2] Factory mutual." Merriam-Webster.com Dictionary, Merriam-Webster, https://www.merriam-webster.com/dictionary/factory%20mutual. Accessed 20 June. 2022.

organisations. They primarily do life insurance business and are regulated like mutual life insurers. They are organised under state laws and operate under a lodge system[3] for providing social and insurance benefits to members and their dependent families.

Inherent drawbacks of organising business in the mutual form are that of limited capital access and growth due to -

- Restricted access to outside capital, equity, debt and hybrid forms; and
- Preference to limit the risks that they underwrite as they want to protect the interests of their members and do not have profit as the driving criteria.

Therefore, long-term stability becomes the predominant goal/objective of the mutual insurance entities.

Demutualisation

The insurance industry in the developed markets, to tide over the capital crunch and propel growth, witnessed the process of demutualisation. According to the IRMI definition, demutualisation is (the) "process in which a mutual insurer changes its legal form to that of a stock insurer".

As a stock company, the insurer can more easily raise capital, offer better compensation to its management through stock options, achieve superior operating and financial flexibility, and enjoy positive tax benefits. A significant drawback is the high expenses associated with the process due to various legal, accounting, regulatory, and tax hurdles."

Instead of changing the legal form completely, capital-starved insurance mutuals also resorted to restructuring by creating more entities under the umbrella of a holding company which retained its legal form of the mutual i.e. Mutual Insurance Holding Company. Restructuring is done to retain the benefits of a mutual organisation. The converted mutual insurance company (into a stock company) will have access to capital markets and raise financial resources in the form of equity capital.

Mutual Insurance Holding Company

Most states have allowed the formation of the mutual insurance holding companies. Holding companies usually hold the shares/ownership of other entities and do not produce goods or provide services. A mutual insurance holding company[4] is created through restructuring a mutual insurance company into two or three entities.

[3] Treas. Reg. 1.501(c)(8)-1 provides that a fraternal beneficiary society is exempt from tax only if it is operated under the "lodge system" or for the exclusive benefit of the members. An organisation is "operating under the lodge system" if it carries out its activities under a form of organisation that comprises local branches called lodges, branches, chapters, and other similar designations. The local branches must be chartered by a parent organisation and are largely self-governing. www.irs.govaccessed on 22/6/2022

[4] 1 12 USC 5389. 2 76 FR 77442 (December 13, 2011). 3The Philadelphia Contributionship, History, http://www.contributionship.com/history/ index.html. 4 Iowa Code Ann. (West) § 521A.14

Table 6: Reorganisation structure of a Mutual

Two- entity structure	Three- entity structure
Includes: • a mutual insurance holding company and • a stock insurance company that is converted from the original mutual insurance company.	Includes: • a mutual insurance holding company and • a stock insurance company that is converted from the original mutual insurance company. • an intermediate insurance stock holding company

Source: 1 12 U.S.C. 5389. 2 76 FR 77442 (December 13, 2011).

The mutual insurance holding company initially owns 100% of the intermediate insurance stock holding company, and the intermediate insurance stock holding company initially owns 100% of the stock of the converted mutual insurance company.

Like a mutual insurance company, a mutual insurance holding company also has no equity capital. Policyholders of the converted mutual insurance company are the shareholders (of the stock company), who have similar membership rights as policyholders of the pre-converted mutual insurance company. They are entitled to vote for members of the mutual insurance holding company's board of directors. They may receive special dividends in the form of capital distributions or reductions in policy premiums.

P to P Insurance: In recent years, P to P insurance has emerged in the insurance scene. As for the organisational form, P to P traces its roots to mutual insurance but uses technology and sharing economy features in the conduct of its business. A major player in the USA is Lemonade.

The traditional form of risk transfer among insurers is reinsurance. However, other risk financing mechanisms are available in the USA market such as Reciprocal Insurance Exchange, Captives and Risk Retention Groups.

Reciprocal Insurance Exchange (Reciprocals)

Reciprocals primarily write auto insurance, and only 86 reciprocals reported data to the NAIC in 2021 (up from 75 in 2004). To the extent that reciprocals are non-profit entities organised to serve their members, their incentives and behaviour are like mutual insurers.

A reciprocal insurer is an unincorporated group of individuals or subscribers who exchange risk, and each member serves as both insurer and insured. Like a mutual insurer, reciprocal is owned by the policyholders but is administered by an Attorney-In-Fact (AIF). The AIF may be an individual, partnership or corporation.

The AIF is an independently owned managing agent and is granted the power of attorney or subscribers' agreement by each subscriber. A power of attorney confers the authority,

responsibilities and prerogatives to act on behalf of the subscribers. The AIF receives fees and commissions for his role:

- To administer its day-to-day operations, which include signing individual contracts, settling claims, establishing deposits and investing funds.
- To maintain the underwriting norms.

The organisational structure also includes a committee, known as a "Subscribers Advisory Committee" (SAC) which represents all subscribers; supervises the AIF and the reciprocal's finances and operations; and acts in the subscribers' stead — except as limited by a power of attorney.

Regulation

In the USA, insurance companies fall under the jurisdiction of the State. If they have to expand in other states, they need registration in each State they wish to expand. State governments play a predominant role in regulating insurance entities in the USA. From 1869 to 1944, insurance was considered a personal contract that did not constitute interstate commerce over which the Federal Government had authority. Two Acts that have significance for insurance business regulation are:

- McCarran-Ferguson Act, the Federal law signed in 1945, in which Congress declared that states would continue to regulate the insurance business.
- Gramm-Leach-Bliley Act, Financial services legislation passed by Congress in 1999, removed prohibitions against the combination of commercial banking and investment banking activities. It allows insurance companies, banks and securities firms to engage in each others' activities and own one another.
- The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in 2010 in response to the subprime crisis, did not alter the insurance regulatory framework in the US but provided for the establishment of the Federal Insurance Office, which has an advisory role and no regulatory authority.

The National Association of Insurance Commissioners (NAIC) is an insurance body formed in 1871 with no direct regulatory authority. One of the significant functions of the NAIC is to develop model laws which are suggestions to the states, whose enactment in the form of laws and regulations brings in legality. NAIC's model laws

According to NAIC, "The NAIC model law development process helps provide uniformity while balancing the needs of insurers operating in multiple jurisdictions with the unique nature of state judicial, legislative and regulatory frameworks", significantly influence the state insurance laws and its programme creates uniformity in state law.

Licensing: It regulates the entry of organisations into the insurance market and is subject to state regulation. State regulations require specified amounts of minimum paid-in capital and surplus funds based on where the insurers are incorporated. They are classified as domestic (State of incorporation and their license to do their business are similar), foreign (State of

incorporation and their license to do their business are different) and alien (incorporated outside the USA).

Minimum Capital and Surplus: Capital requirements vary from State to State. These requirements may vary among -

- ✓ segments of business in which the entities offer insurance services like Life, Health, Property & Casualty, Title etc.,
- ✓ Forms of the organisation like stock companies, Mutual, Fraternal societies etc.,
- ✓ No of lines of business in which these entities are engaged doing business. For example, Monoline insurers, multi-line insurers etc.,
- ✓ Their domicile, such as domestic, foreign, and alien, is described above.

The minimum capital and surplus requirements are different combinations of the above in different states.

NAIC publication gives details of minimum capital requirements of the states. (Annexure-1) (content.naic.org). It can be observed that the regulatory capital requirements for the stocks and mutuals are similar; however, Deposits are higher than stock insurers, as mutuals do not have the stock capital. In the State of Virginia, the Regulator allows mutual insurers, both in the form of assessable and non-assessable. It can be noted that the surplus requirement of non-assessable mutual insurers is 2.5 times higher than that of Assessable mutual insurers. This State permits the formation of both assessable and non-assessable reciprocals as well with requirements of similar surplus amounts. At the time of formation, an initial surplus amount is also the mandatory requirement of the Virginia State Insurance Regulator.

In Puerto Rico also, there is no difference between mutual and stock insurers in terms of capital requirements, as can be seen from the capital requirements from insurers (Annexure-II)

Risk-based Capital: There are two Model Acts of NAIC regarding RBC requirements for insurers and Health Organisations.

1) Risk-Based Capital (RBC) Model Act establishes RBC requirements and outlines the reporting requirements for insurers. The hearing process and confidentiality concerns are addressed. It also includes provisions for exemptions, foreign insurers and immunity.
2) Risk-Based Capital (RBC) for Health Organizations Model Act This model act establishes RBC requirements and outlines the reporting requirements for health organisations. The hearing process and confidentiality concerns are addressed. It also includes provisions for exemptions, foreign health organisations and immunity.

NAIC developed Model Laws covering various areas/topics (naic.org).

Solvency Surveillance: There is no difference in the surveillance between stock insurers and mutual insurers. Offsite analysis using IRIS[5] and FAST[6] are used. State laws also require

[5] According to III, Insurance Regulatory Information System (IRIS) uses financial ratios to measure insurers' financial strength. Developed by the National Association of Insurance Commissioners, each state insurance department chooses how to use IRIS.

[6] The Financial Analysis Solvency Tools (FAST), a scoring system which supplements the IRIS ratios, are used.

regulators to do on-site examinations of domestic insurers. When there is an inability noticed to pass the financial tests that the state regulators administer as a routine procedure, they are considered the first sign of problems of an insurer to meet its liabilities. Insurance insolvency standards and the regulatory actions taken vary from State to State. Based on the RBC level, trigger points for regulatory action are established.

When state regulators deem that an insurance company is in financial danger, they assess the company in question if it can be saved or if its salvage is deemed impossible. If the saving of the company seems an option, the regulators place the company in one of the two options below:

- in conservatorship (wherein the regulators guide companies), or
- in rehabilitation (wherein the regulators direct companies), or
- in liquidation if salvage is deemed impossible.

In case of liquidation, the insurance company's affairs are wound up by selling its assets and settling claims upon those assets by appointing a liquidator. After receiving the liquidation order, the liquidator notifies insurance departments in other states and state guaranty funds of the liquidation proceedings. Such insurance company liquidations are not subject to the Federal Bankruptcy Code but to each State's liquidation statutes. Guaranty Funds are required in all 50 states, the District of Columbia and Puerto Rico, but the type and amount of claim covered by the fund vary from State to State. According to the Insurance Information Institute (III), these funds are the "mechanism by which solvent insurers ensure that some of the policyholder and third-party claims against. Guaranty funds are supported by assessments on insurers doing business in the state".

Governance

The NAIC adopted the Corporate Governance Annual Disclosure Model Act and Regulation (#305/#306) in November 2014 to collect more detailed information on insurers' corporate governance practices. The Model Act is an accreditation requirement, effective 1 January 2020

"The Model Act and Regulation do not prescribe new governance standards but rather require the insurer to report on existing practices. Given the different structures of US insurers, they are afforded discretion over the format of the filing and the level of the company responsible for the filing (for example, controlling parent or individual legal entity). However, the insurer should consider which level of the company actually determines the insurer or insurance group's risk appetite. At a minimum, the disclosure is required to address: the insurer's corporate governance framework and structure; the policies and practices of its board of directors and significant committees; the policies and practices directing senior management; and the processes by which the board of directors, its committees and senior management ensure an appropriate level of oversight to the critical risk areas impacting the insurer's business activities".

Performance of Mutuals Vis A Vis Other Competing Entities

Mutual P&C insurers are particularly prominent in the US, where they have more than 55% of the market. Five of the top ten US personal lines insurers are mutuals; the top two mutuals alone (including State Farm, the biggest personal lines insurer in the US) get more than 22% of the country's personal lines premiums. Mutuals also have a solid presence in commercial P&C insurance, although that market is less consolidated and more global. The top two US mutuals in commercial P&C insurance have less than 8% of the market, compared with the roughly 11% combined share of the top two publicly traded commercial P&C insurers (BCG).

In its Fact Book published annually, the American Council of Life Insurers (ACLI) provide details on organisations selling life and annuity products in the US market. Data on the number of mutual insurers operated since 1950 in the US Life & Accident segment is also available. According to the publication available for the year 2020, there were 747 life insurance companies; stock insurers accounted for 74% (553 out of 747) while the share of mutuals was approximately 15% (110 out of 747) and the balance were in the form of fraternal and others. The ownership structure is decided based on the nature of parent ownership. With this definition of ownership, the number of mutuals was the highest in the year 1995. With consolidation in the industry, there has been a gradual decline in the number of players[7], both stock and mutuals, over the period.

Technology

The United States ranks high in terms of technological innovation in the insurance sector if the ecosystem of the Insurtech start-ups in the USA is considered. In terms of investments in Insurtech start-ups, nearly 45% of world Insurtech start-ups, are able to attract nearly 50% of total investments (NTT Data, 2020). In the P&C segment, process digitalisation (such as for sales and distribution) and achievement of higher efficiency are among the top trends; promoting efficiency in processes, such as claim settlements, that are particularly relevant for this industry has also dominated the tech charts.

[7] According to ACLI, maximum number of stock companies was 2225 and maximum number of players in L & H sector was 2343 in the year 1988.

5. MUTUAL INSURANCE IN LATIN AMERICA AND AFRICA

Latin America and Africa contribute 2% of global mutual premiums. The business size of mutual insurers in Latin America was USD 18 billion, and in Africa, USD 1.5 billion in 2017(ICMIF). In the emerging regions of Africa and Latin America, traditional life cover was the predominant line of mutual life business, accounting for just under 90% and 70%, respectively. Motor insurance was the predominant product line for mutuals in Latin America (49% share) and Africa (34%). Latin American mutuals served 30 million members/policyholders in 2017; this figure rose to 13 million for African mutuals. The largest insurance markets in Latin America are Brazil, Mexico, Argentina, Venezuela, and Chile. South Africa is the leader in setting up mutuals in Africa because of its colonial legacy. Ethiopia and Morocco also have the presence of Mutual insurance companies.

The mutual model is prevalent as a risk-sharing mechanism in the informal sector in rural and poor areas of Sub-Saharan Africa. These organisations have a local presence and operate on at small scale and their sustainability is questioned, especially when faced with covariant risks.

6. OBSERVATIONS FROM THE STUDY OF MUTUAL INSURANCE ACROSS THE GLOBE

Mutual insurance runs on three basic principles – ownership to members (who are customers), functioning on democratic principles (allowing a say of policyholders in management) and profit sharing with members. These principles address the following issues present in stock companies:

a. Principal-Agent problem is prevalent in shareholding companies as there is no separation of benefits between the members and the owners in a mutual.
b. The issue of conflict of interest between insured and insurer as both are one and the same.
c. The third problem that this model deals with is of information asymmetry, adverse selection, and moral hazard.
d. Since the profits made by the entity is ploughed back for members' benefit, these common issues of the conventional insurance business model or shareholding model are automatically reduced.

These merits of mutual insurance allow the model to be cost-effective and responsive to the needs of the insured. It also brings ownership by increasing trust in customers who otherwise feel cheated in the case of no claim. It can serve as a good model for bringing insurance inclusion as it addresses the prime concerns of low-income and rural populations by bringing transparency, control by policyholders and delivering value for money.

A cross-cutting theme that emerges from the study of mutual insurance across the globe is that the basic factor in initiating a mutual entity is affordability. People found conventional /corporate insurance expensive and looked for an alternative in mutuals. In many countries, people wished to eliminate the role of agents/intermediaries, remove commission to make insurance affordable, and come together to form insurance mutuals.

Mutual insurance companies across the globe are non-profit companies dedicated to value creation for its members. Most of the mutuals started their function with the contribution of members, and later, they built funds from the surplus generated by the business. However, there are exceptions to this, where the Government or promoters provided seed money to initiate operations. The Netherlands is a good example of this, where the Government provided a grant to start a mutual. In France, MAIF and other mutuals started another mutual company named MACIF.

Mutuals also dealt with the issue of asymmetric information and made this form of insurance viable by reducing the cost of monitoring and spillage due to fraud.

Mutuals started with covering specific risks concentrated with people engaged in certain livelihoods and living in the same area. Later, in many cases, mutuals diversified by adding new products and business lines and opening their services to the general public.

There are ample examples of big mutuals turning into holding companies and floating subsidiaries which are shareholding companies to take up various functions and business lines as a means of business expansion.

A study of the evolution of mutuals and cooperatives indicate that mutuals existed before the welfare state's advent to take care of financial and other social and protection needs. Some of these mutuals and cooperatives lost their relevance and ceased to exist after the advent of welfare states as states took on the responsibility of providing support. The Netherlands is a good example of this. After the welfare state took over social protection responsibilities in the Netherlands, many mutuals stopped their operations. In the 1990s, when Netherlands Government announced that it would not carry risks of individuals, many mutuals started emerging.

European countries have a long history of informal, friendly societies and mutuals, which are considered precursors of insurance mutuals. Many of these mutuals lost relevance when the formalisation of organisations started during the industrial revolution. New formal mutuals took their place, which had a specific organisational structure and was guided by the Code of conduct, by-laws and regulations of the Governments/State.

In many countries, governments took a protectionist approach towards mutual and cooperative societies, keeping in view their non-profit nature and welfare approach. Ex- France and South Africa.

In most of the countries where mutuals are strong, we can observe that these mutuals have a strong presence in other areas of social protection like health care and old age care by setting up dedicated organisations. Ex- France and UK. Later, they started insurance mutuals to take care of financial protection. Ex- Germany, France, UK and Japan.

However, there are also examples of mutual insurance companies diversifying to other financial services like long-term saving, pension, and financial advisory. Ex- Old Mutuals in South Africa and MACIF in France.

In Europe, in countries part of the European Union, the requirement for a uniform code in financial services forced many countries to drop their protectionist approach toward the mutuals. This uniform code made the existence of mutuals difficult, and many of them demutualised.

Changes in regulations and increased competition from shareholding companies had resulted in the consolidation of business of mutuals in both Europe and the USA. Demutualisation of mutual insurance companies resulted from three reasons- change in regulation, competition in the market and expansion.

One of the limitations of mutuals is capital which restricts the growth of mutual insurance companies. This limitation has also triggered the demutualisation of many big mutual insurance companies in the USA, France, and South Africa.

After demutualisation, many companies carry their value of the mutual benefit as a guiding factor. However, an equal number of companies completely convert to shareholding companies and part with their value of mutuality. Ex- Old Mutual and SANLAM in South Africa.

In Japan, Cooperatives, especially agriculture cooperatives, appear to be working very closely with the Government. They seem to be an extended arm of Government and receive both administrative and other 'conditional financial support.

As the size of mutuals increases, the distance between members and management increases. It results in the separation of power between owner members and management, which requires better regulatory governance and control. As mutuals grow, they also need to expand their operations to other business lines and geographies, which is restricted by the regulation. They become shareholding companies and establish shareholding subsidiaries owning 100% shares. These changes lead to increased control of the regulatory regime leading to the neutralisation of regulation vis-a-vis sharing holding companies.

7. SUMMARY

A wide variation in regulations is observed across the countries. In the USA and South Africa, a single regulation covers both shareholding and mutual companies. Whereas in Europe, separate clauses govern mutual insurance companies. In Japan and the Philippines, there is a separate regulator with specific regulations for mutual and cooperative insurance companies. The USA market appears to be competitive, and mutual insurance companies compete with other forms of insurance companies. It is uniform and standardised for all forms of insurers.

However, regulators took a lenient approach towards mutuals and cooperatives in Europe, and protection is slowly being removed following the insurance code under the EU regime.

We observed that the legal and regulatory requirements, including capital and solvency, are almost standardised for all forms of insurers in most of the countries studied. Thus, the Mutuals face intense competition from shareholding companies in the countries studied.

The extent of use of technology is varied in these countries studied.

Based on the observations in the study, the team attempted to summarize the findings in the table below on the characteristics used.

Country	**Mutual and cooperative culture**	**Regulation for insurance mutual**	**Protection for insurance mutual**	**Competition from insurance companies**	**Technology use**
France	High	Separate insurance code. Minimum capital and solvency requirements provided under the Solvency II Directive for companies. Governance is same as joint stock companies	Protectionist approach Modifications after EU guidelines to bring uniformity	High After modification to align with EU guidelines as protection from was reduced	Low Only online sales
Netherlands	High	Government promotes new mutuals, also provides seed capital	Protectionist approach	NA	Low Only online sales
Germany	High, county level	Separate insurance code Governance is same as joint stock companies	Protectionist approach	High	Low Only online sales
South Africa	Moderate Restricted to the influence of parent companies based in Europe	Governance is same as joint stock companies	Low	High Strong presence of private insurance	Low Only online sales
China	Moderate	High Measures for the supervision of Mutual Insurance	No evidence	High Regulation restricted the margins, led to closure of mutuals	High Use of digital platform and Blockchain

Country	Mutual and cooperative culture	Regulation for insurance mutual	Protection for insurance mutual	Competition from insurance companies	Technology use
Philippines	Good competition	Yes Separate Regulation Low capital requirement	Moderate	Mutuals cater to micro insurance market in a big way	Low
Japan	Moderate	Separate act/clause for insurance mutuals &cooperatives No difference between Stock Companies and Mutuals wrt. Capital requirements.	No specific protection but Cooperatives have government and prefecture support	High. Out of 42 domestic Life companies only 5 are Mutual companies.	High
USA	High	Uniform regulations for the players in industry. Minimum capital requirements specify surplus requirements for mutuals as they don't have capital	NAIC Model Laws treat the players in an uniform manner	High	High

8. CONCLUSION

The study finds that there is very strong evidence that the social economy plays an important role in the evolution and the development of insurance mutuals and cooperatives. In most of the countries studied, the mutual and cooperative history existed for a very long time, for more than a century or two, and the cooperative culture is seen to be very high. With the change in times and with change in regulatory and market requirements, this organisational form of providing insurance services underwent changes; however, the basic principles underlying the mutual insurance is preserved to offer economic protection to its member - policyholders. Mutual insurers compete with other (mostly joint stock) players in the insurance market. High capital requirements, as the business grow, are taken care through either demutualisation and / or mutual holding companies.

The merits of mutual insurance allow the model to be cost effective and responsive towards the needs of insured. It also brings ownership by increasing trust in customers who otherwise feel cheated in the case of no claim. It can serve as a good model for bringing insurance inclusion as it addresses the prime concerns of low income and rural population by bringing transparency, control by policyholders and delivering value for money.

Insurance legislation, at present, allows insurance business by the following two forms of organisations:

1. Joint stock companies
2. Cooperative Societies

There is no difference in the legal and regulatory treatment of these two forms of organizing insurance business in terms of Initial capital requirement, Minimum Capital and solvency prescriptions etc.

It may be noted that mutual insurance entities were operating in the Indian market at the time when India became an independent country. Insurance legislation of 1938 defined mutual insurance organizations as "an insurer having no share capital and all policyholders as members" (Bhat, Menezes and Avila, 2017). Definitions from the Act (before amendment) is presented in the box below. There were amendments to the Act, requiring the mutuals to have certain amount of deposit/ capital, for continuing in the business.

In the year 2015, when the Insurance Act was amended, the provisions referring to Mutual Insurance company were deleted from the legislation.

Definition of Mutual and Cooperative insurance in Insurance Act 1938

'Mutual Insurance Company' means an insurer, being a company (incorporated under the provisions of the Indian Companies Act 1938), which has no share capital and of which by its constitution only and all policy holders are members.

‘Cooperative Life Insurance Society’ means an insurer being a registered under Cooperative Societies Act 1912, or under an Act of State Legislature governing the registration of cooperative societies which carries on the business of life insurance, and which has no share capital on which dividend or bonus is payable and of which by its constitution only original members on whose application the society is registered, and all policy holders are members.

The Registrar of Cooperative Societies of the State Government may register cooperative societies for the insurance of cattle or crop or both under the provisions of Cooperative Societies Act of the State.

However, various studies have identified about two dozen community based mutual insurers working in India. They work in informal social development space covering more than two million underprivileged populations. These mutual insurers are not recognized by the regulator IRDAI as an insurer. In most of the cases these organizations are registered through various regulatory bodies and comply to the regulations under which they are registered as a financial institution/ NGO. These organizations cover risks of their members by retaining their risks. They face difficulties in securing finance to upscale their activities. They do not have reinsurance available to secure their risks.

The potential for establishing mutual and cooperative insurance in India is immense, with over 600,000 cooperatives in the country and a membership of over 250 million. Mutuals and cooperatives encourage low-income families to engage and have become the primary model of financial inclusion in the design and distribution of certain goods and services. A regulatory framework conducive to development in place will go a long way to realize this potential. A regulation which can delicately balance the solvency requirements of risk carriers with the risks of realistically covering the lives and livelihoods of the poor will create space for small organizations working on insurance inclusion.

ANNEXURE

1. Criteria and Parameters for the Study

Criteria	**Parameters**
Mutual and cooperative culture	1. History/timeline 2. Existence of mutuals in other areas/activities Y/No and spread 3. Who is taking initiative- ppl/consumers/producers/Govt 4. Percentage of population covered 5. Geographical distribution
Regulation for insurance mutual	1. Entry 2. Exit 3. Product filing 4. Capital requirement 5. Disclosures 6. Compliance requirements
Protection for insurance mutual	1. Coexistence along with shareholding companies 2. Whether regulated at par 3. If not, what areas- 4. capital, reinsurance, solvency, entry, investment/asset, foreign entry
Governance	1. Board composition 2. Rights of members 3. Actuarial, risk and audit practices
Performance of mutuals vis a vis other competing entity	1. premium/premium rate 2. claim ratio 3. investment income 4. reward to policyholder 5. coexistence of other companies in business line- by mutuals/ insurance companies/Govt
Technology use	1. use of technology in operations 2. use of AI, machine learning and digital platforms

The summarization was done using availability of information and following criteria:

- if all parameters -high
- if two to three parameters -medium
- if only one or 2 parameters or no information-low

2. Example of Capital Requirements in one of the United States of America

Example of Capital Requirements in one of the States	
Stock - P&C -	Capital $900,000 Surplus $600,000 Deposit $900,000*
Stock - Life	Capital $600,000 Surplus $600,000 Deposit $400,000
Stock - Mortgage Guaranty	Capital $1,000,000 Surplus $1,000,000 Deposit $1,000,000*
Stock - Title -	Capital $450,000 Surplus $300,000 Deposit $450,000*
Mutual - P&C -	Capital N/A Surplus $1,500,000 Deposit $900,000*
Mutual Life -	Capital - N/A Surplus $1,200,000 Deposit $400,000
Mutual - Mortgage Guaranty -	Capital N/A Surplus $2,000,000 Deposit $1,000,000*
*Minimum requires “market value” of securities held for deposit. The minimum requirements for a property company only (stock and mutual) and a casualty company only (stock and mutual) are one-half of the requirements noted above.	
Example of Capital Requirements in Virginia	
Stock Insurers	Capital Stock $1,000,000 Surplus $3,000,000 (§ 38.2-1028)
Assessable Mutual Insurers	Surplus $1,600,000 (§ 38.2-1029)
Nonassessable Mutual Insurers	Surplus $4,000,000 (§ 38.2-1030) (§ 38.2-1030)
Assessable Reciprocals	Surplus $1,600,000 (§ 38.2-1206)
Nonassessable Reciprocals	Surplus $4,000,000 (§ 38.2-1213)

3. Insurance Code of Puerto Rico

Insurance Code of Puerto Rico-Funds required from insurers
‘’To qualify to receive the authority to transact any kind of insurance, an insurer must have and hold paid-in capital or surplus stock in an amount which shall not be less than what appears in the applicable portion of the following schedule:

Kind of Insurance	Stock, mutual, or cooperative insurers Capital or surplus required surplus	Reciprocals or Lloyd's Surplus required
Life	$1,500,000	Not applicable
Life and disability	$2,500,000	Not applicable
Disability	$1,000,000	$1,000,000
Property	$2.000,000	$2,000,000
Agricultural only	Must qualify for property insurance	
Marine and Transport	$1,500,000	$1,500,000
Casualty	$2,000,000	$2,000,000
Vehicle only	$1,500,000	$1,500,000
Surety and fidelity	$1,500,000	$1,500,000
Title	$1,500,000	Not applicable
Mortgage loans	$3,000,000	Not applicable
All insurance except life and mortgage loans	$3,000,000	$3,000,000

The Commissioner may increase the requirements as may be determined by the economic condition of the country up to the amount he deems necessary for the adequate protection of the interests of the insured and the creditors of the insurer.

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