

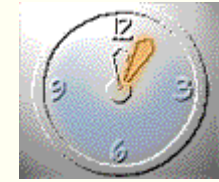
The different impact of the crisis on the non-profit insurance industry



paul.roels@procrea.be

Lecturer at the K.U. Leuven University
Member of the Belgian Occupational Pensions Board
Independent Consultant

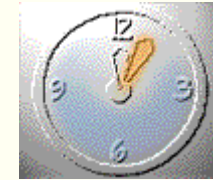
What will I talk about ?



The impact of the crisis on the non-profit insurance industry



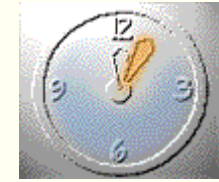
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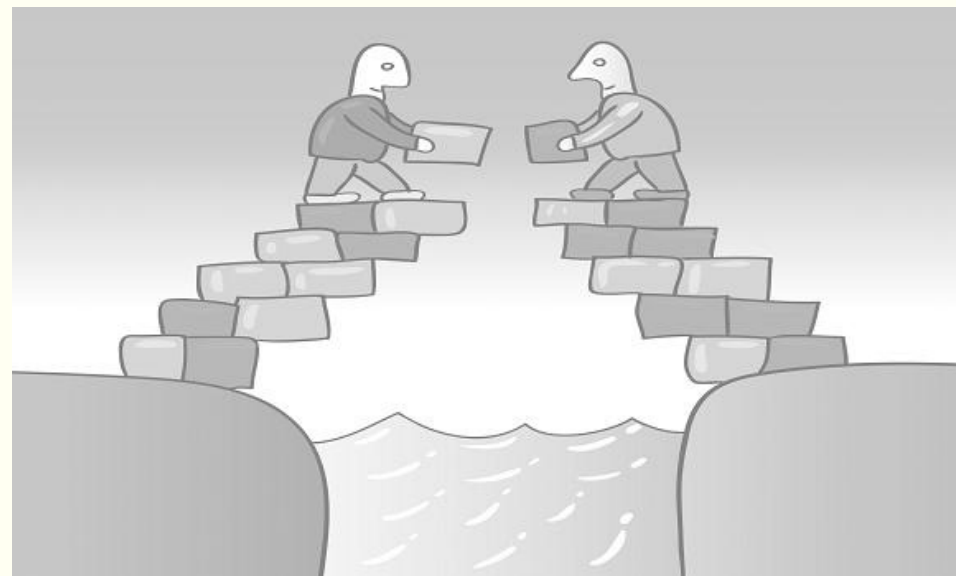
What is the situation of the non-profit insurance industry ?




What will I talk about ?



What next ?



Some of the sources of inspiration for what I will say

- Antolín, P. and Stewart, (2009), "Private Pensions and Policy Responses to the Financial and Economic Crisis", OECD Working Papers on Insurance and Private Pensions, No. 36
- Dembour, Philippe, Les normes comptables : accélérateur de la crise passée et... catalyseur de la crise future, (2009), Forum Financier Revue Bancaire et Financière
- Drake and Llewellyn, (1997), Mutuals in the financial system,, Loughbourn University (written before the financial crisis)
- Moody's Investor Service, (2009), Revenge of the mutuals
- Roels, P Myths with respect to accounting for pensions, to be published this year
- My own thoughts 
- These external sources initiated some of my thoughts. But the contents of these slides do not represent their opinion.

Different types of companies compete on the market

- There are many forms of economic firms :
 - The pure capitalistic form : the sole proprietor
 - Partnership
 - Stock companies
 - Co-operatives
 - State owned agencies
 - Mutuels

Mutuality is historically a natural form in the services industry

A manufacturing company

- Needs a starting capital before it can operate
- This capital must be supplied
 - External risk takers provide (often tradable) equity capital

Owners and customers are separated

A mutual in the financial sector

- Historically less need for working capital
- Customers provide the main capital
 - From accumulated profits
- Customers place themselves at both ends of the value chain : providing the capital and taking up the output

Customers are owners

Is the external shareholder really necessary ?

- External capital suppliers need to be remunerated
 - Potential conflicts between stakeholders : customers, shareholders, financial intermediaries
- The theory : external shareholder ship
 - Increases efficiency and accountability
 - Allows to grow faster and to diversify
 - Allows to recruit and retain key people
- Mutuels become particularly vulnerable when :
 - They are too profitable : pressure to do something with the excess
 - Not profitable enough : lack of capital
- Is this true, and are there also negative points ?

Not all of the capital comes from the traditional sources

Stock company	Mutual company
Shareholder's equity	Retained profits
Subordinated debt Goodwill and intangibles	

Capital is the first layer of defense to absorb shocks

There is a clear trend towards demutualization both in the US and the EU

- Multiple reasons :
 - Management's ambition
 - It becomes easier to attract capital
 - For external growth via acquisitions
 - Recently : to cover losses
- Examples of demutualization : Prudential, Metropolitan Life, John Hancock, Phoenix, Axa, Aegon, KBC
- Stock insurance companies showed in a recent past higher growth rates and improved earnings than mutuals
- Mutuals still hold an important place in several markets
- In several markets social partners have a role in mutuals providing pensions and health cover

Mutuals emphasize capitalization versus capital efficiency

- Stock companies aim at “efficient” use of capital :
 - They want to minimize capital
 - They tend to hold capital through debt or hybrid security
 - Capital is a main attention point when going for acquisitions
 - They return capital to shareholders through stock buyback
- This all comes to reducing the first line of defense in times of crisis
- Most mutuals seem to have more and better capital
 - This was one of the conclusions of a 2009 Moody’s report on US Life insurers
- The return on free reserves in a mutual does not need to be distributed to shareholders

Mutuals focus on lower risk products and stable distribution

- Mutuals sell more
 - Life insurance
 - Participating products
 - Products with low return on equity

= less capital strains from equity market fluctuations
- Stock companies sell more variable annuities with high guarantees
- Mutuals focus rather on career distribution (agents), stock companies on independent distribution (brokers and third parties)
- What is observed in the US market, seems also to be true in the EU market
 - But a number of mutuals got into big trouble because of the lack of capital when competing products and distribution patterns of the stock companies

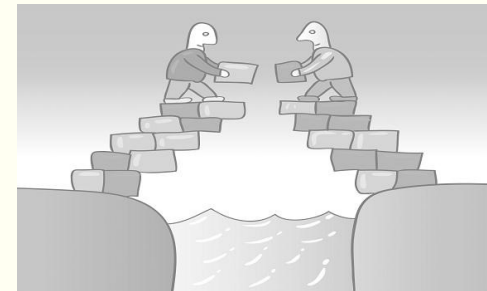
Mutuals operate under less public glare

- What US investment research indicates :
 - Mutuals do not report with the same level of frequency and detail as stock companies
 - Difference occur especially with regard to unrealized losses and other than temporary impairments
 - Losses due to unusual market conditions might be partially reversed over time
 - Mutuals gain less unfavorable press coverage
 - Mutuals tend to invest more for the long term than stock companies that are short time oriented
- The EU ?
 - There is no evidence that the situation might be very different

Mutuals are less reliant on capital market access

- Mutuals have more limited access to capital markets
- There is less pressure to return excess capital to shareholders
- The capital structure of mutuals is often different
 - less institutional investment products (e.g. funding agreement backed notes)
- When capital market access became less accessible :
 - Stock companies had suddenly more difficulty in finding additional capital and in renewing loans
- When mutuals needed capital, they had even less possibilities

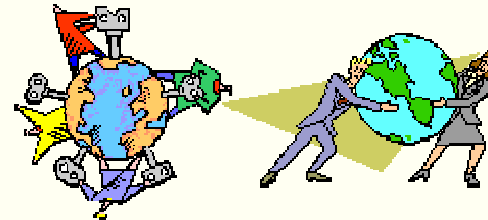
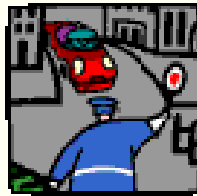
What did I talk about ?



The treats for mutuals

- Solvency rules imposing higher capital needs tailored to stock companies
- Reporting and accounting standards focused on short term
 - How much mark to market ?
 - Possibilities to retain capital ?
 - Possibilities for depreciation ?
- The market would become different without mutuals....

The life and pensions market today...



危機 = 危 GEVAAR
DANGER
機 KANS
OPPORTUNITY

CRISIS
WEI JI



That's it ...

Thank you for your kind attention

