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List of Abbreviations

ABI- Association of British Insurers

ACME- Association of European Cooperative and Mutual Insurers

AIA-Austrian Insurance Association

AIG -American Insurance Group

AIM- Association Internationale de la Mutualité

AISAM- The International Association of Mutual Insurers

AMICE- Association of Mutual Insurers and Insurance Cooperatives in Europe

bn- billion

CEA-Insurance Europe (known as Comité Européen des Assurances

CEIOPS- Committee of European Insurance and Occupational Pensions Supervisors

CEP-CMAF- the European Standing Conference on Cooperatives, Mutual Societies, Associations and Foundations

CIERIC- International Centre of Research and Information on the Public Social and Cooperative Economy

EAVA -European Added Value Assessment

EEA- European Economic Area

EIOPA -European Insurance and Occupational Pensions Authority

EU- European Union

FMA- Financial Market Authority

GDP- Gross Domestic Product

IAS- International Accounting Standards

ICMIF- International Cooperative and Mutual Insurance Federation

IMF- International Monetary Fund

ISA- Insurance Supervision Act

JURI- The Committee on Legal Affairs

KLV- Kärntner Landesversicherung

KPMG –The merge of the company KMG and Peat Marwick

MCR-Minimum Capital Requirement

n.d- no date

ÖBV- Österreichische Beamtenversicherung

ORSA- Own Risk and Solvency Assessment

p. - page

QIS-Quantitative Impact Studies

SCE-Statute for a Cooperative society

SCR-Solvency Capital Requirement

SE- European Company

SRP-Supervisory Review Process

SWOT - Strengths, Weaknesses, Opportunities and Threats

VAG- Versicherungsaufsichtsgesetz

VLV-Vorarlberger Landesversicherung

VVO- Verband der Versicherungsunternehmen Österreichs

WIG- Wiener Insurance Group

1. Introduction

Nowadays we are spectators of significant challenges that the third sector is facing, behind this background cannot remain the impact of the worldwide economic and financial decline.

Mutual associations as part of the third sector, are playing substantial role in the socio-economic life, offering social coverage and protection, insurance to large number of people.

Although the general tendency of conversion of mutual insurance organizations into joint stock companies and their difficulties to provide additional capital, special attention wakes the current potential of mutuality for organization of insurance companies and their operation during this hard period.

According to AMICE & ICMIF (2014) study the financial crisis of 2007 and continuing recession have expressively impacted the growth of the insurance sector in many European countries. But, on the other hand, insurance mutuals and cooperatives have significantly performed better than the total insurance market since the start of the global financial crisis and over 70% of European countries increased their mutual market share in 2011.

The evidence that insurance mutuals have proven to be resilient in time of crisis, retaining in many countries high percentage of market share is very significant challenge for mutual insurance organizations and its actors, for the third sector and for the whole economy in general.

1.1 Problem definition and relevance of the topic

The principle of reciprocity can provide a way to organize an insurance enterprise, where the protection and risk sharing are based on solidarity and cooperativity values.

This kind of insurance businesses, recognized as insurance mutual companies provide services to a large number of European citizens and they represent almost a quarter of the European insurance market.

This kind of insurance company is also legally constituted within Austrian Supervision Act, they are still present in the insurance industry and have different importance through their historical development.

Even that the act favored a shift into a joint-stock company and their number during the last decade is very stable (last change in 2004, a new insurance mutual), attention wakes the

current possible potential of mutuality in the insurance industry and their operation during the financial crisis.

The financial and economic crisis continued to have a negative effect on the global insurance industry.

According to the AMICE & ICMIF (2014) the financial crisis of 2007 and continuing recession have expressively impacted the growth of the insurance sector in many European countries.

But, on the other hand, insurance mutuals and cooperatives have significantly performed better than the total insurance market since the start of the global financial crisis of 2007–08 and over 70% of European countries increased their mutual market share in 2011.

Considering these findings, the attention is focused in Austria, the perspective of Austrian insurance mutuals and their operation during this hard period will be analyzed.

1.2 Objective of the thesis

Trying to understand the dualism (joint stock vs. mutual insurers) that exists in the insurance market and the critical thinking about the general European outcomes about the mutual sector, provoked me to ponder Austrian mutual insurers.

The objective of this thesis is to provide an assessment of the insurance mutual market in Austria, to describe their importance, role and development, their operation during the financial crisis.

Furthermore, to consider whether the same conclusion as the general European mutual research applies for Austrian insurance mutuals and of course to encourage additional future research on the same field.

1.3 Methodology of the thesis

To pursue the above-mentioned research objective very important is the theoretical perspective, it provides the basis for evolving the problematic of the thesis.

This thesis uses a lot of information available from a number of books, reports, conferences, discussions, newspaper articles and interviews, companies' websites and various regulatory bodies. That is to release a foundation in order to examine the legal and social issues of

insurance mutuals, like their legislative background and development, the competition with joint stock insurers, topics like the Solvency II and the confronting with the financial crisis. Moreover, to achieve the objective the following research activities are outlined:

Desk research of Austrian insurance industry, especially for Austrian (large) insurance mutual associations- desk research is applied as a main method of the study in this thesis. Emphasis is putted on a number of different sources such as the Financial Market Authority reports or the reports of the Austrian Insurance Association, annual reports of insurance mutual companies etc.

The lack of reliable and comprehensive statistics special for insurance mutuals and studies that concerns insurance mutuals and their role during the financial crisis limits the possibilities to outline a complete examination .But, the above-mentioned sources provide general information about the general insurance sector, where is also included the information about all six insurance mutuals that operate in Austria. “Playing” with their data just enabled me to reach conclusions about the (large) insurance mutual sector of Austria.

The financial statement analysis -will be conducted within mutual insurers, based on the annual selected balance sheets and profit and loss account in order to calculate their financial ability. For example, it will be presented the combined ratio trend of mutual insurers for the accident insurance sector.

Comparisons of these outcomes and results from existing studies will allow to understand and note certain views related to this topic.

1.4 Structure of the thesis

In the introduction part is described the relevance of the topic, research question, objectives, the followed methodology and structure of the thesis.

The second section is used to present the general theoretical foundation like the position and relevance that mutual societies share within the third sector, the definition of the mutual societies and insurance mutuals, their historical background in general and in Austria, the dualism mutual vs joint stock insurance companies also discussions about special topics like the Statute for European Mutuals and the Solvency II, the section will end with the topic insurance mutuals during the financial crisis.

The third section is dedicated to the Austrian mutual insurance companies describing mutual companies, the structure of the market over the time, insurance lines, market share, legal

framework changes, and the competition. Very important part here is the outline about the Austrian insurance mutuals during the financial crisis.

The final section is the conclusion and discussion part, where will be disclosed the outcomes of the Austrian mutual insurance sector and the issues arising from this topic.

2. General Theoretical Foundations

2.1 Mutuals as part of the third sector

The third sector includes economic activities accomplished by cooperatives, mutual societies, associations and foundations.

Almost all studies and literature define the third sector in relation with these main elements and these components are placed nearly in every country.

The third sector notion in Europe arose in the middle 70s, it was the time characterized by economic crisis and destabilized public and private sectors.

That time, some organizations were already active and operated next to public and private organizations fitting neither to the private nor to the public sectors.

These kind of organizations became very eminent, in the literature they are known as “*third way of improvement between the capitalism and socialism*”, (Defourny, 2001, p.3).

According to Defourny (2001) “ *the increasing numbers of economic initiatives we will call "social enterprises", which bear witness to the development, throughout Europe, of a new entrepreneurial spirit focused on social aims*”, (p.2).

Even that the conditions and positions of European countries didn't develop such an extensive attention on the third sector these economic organizations were already important factors that existed in some countries for more than a century and their number steadily were growing (2001).

The major categories of the third sector enterprises are cooperative enterprises, mutual societies, associations and recently foundations are also involved.

Based on these important parts of the SE (social economy) the Charter of Principles of the Social Economy (2007), promoted by the European Standing Conference on Cooperatives, Mutual Societies, Associations and Foundations (CEP-CMAF), highlighted that these principles are:

- The primacy of the individual and the social objective over capital

- Voluntary and open membership
- Democratic control by membership (does not concern foundations as they have no members)
- Combination of the interests of members/users and/or the general interest
- Defense and application of the principle of solidarity and responsibility
- Autonomous management and independence from public authorities
- The surpluses is used to pursue sustainable development objectives, services of interest to members or the general interest (as cited in Monzon & Chaves, 2008, p.554).

If we distinguish mutual societies, their economic weight and background in the society underlined them as important part of the economy that cannot be neglected.

Mutual societies are organizations that are based on the principles of solidarity , their objective is serving members or the community rather than generating profit and including the independent management they are subject of a democratic decision making process .

They have steadily been established in several industrialized countries operating as main providers in social security systems, operating in the markets where they attend to advance their competitiveness, face the weaknesses and threats of international trade and technological progress.

The study of CIERIC (2012) goes through the definition of the social economy, historical evaluation of this concept, presenting social economy in the European countries in numbers, public policies and the impact of the economic crisis on the social economy. This study used secondary data provided from countries involved in the research and the reference period is 2009-2010. It noted that the third sector in Europe is very significant sector, the total paid employment is over 14.5 million Europeans, or about 6.5% of the working population of the EU-27.

Table 1 Paid employment in cooperatives, mutual societies and associations in the EU (2009-2010)

Country	Cooperatives	Mutual societies	Associations	Total
Austria	61,999	1,416	170,113	233,528
TOTAL EU-15	3,874,765	325,844	8,605,750	12,806,379
TOTAL EU-27	4,548,394	362,632	9,217,088	14,128,134

Source: adopted from CIERIC (2012, p. 47)

From the table we can count that mutuals present near 2, 5 % of the total paid employment of social economy organizations.

If we refer Austria, the same study presents that in Austria operate near 118.475 entities of the third sector, 59 of which are mutuals (near 0.05% of the SE entities). There are 233.528 jobs related with the third sector, 1.416 out of them are linked with mutuals.

Table 2 The social economy in Austria

Cooperatives and other similar accepted forms	Mutuals and other similar accepted forms	Associations and other similar accepted forms
61,999 jobs	1,416 jobs	170,113 jobs
1,860 enterprises	59 entities	116,556 entities
3,015,614 members		4,670,000 volunteers

Source: J.Brazda, R.Schediwy & H.Blisse - University of Vienna

Retrieved from CIERIC (2012, p. 52)

Although the small part that the mutuals take in the Austrian social economy, they remain as interesting investigation topic and important fragment of the development of the SE in this country.

Inconsequential number of studies have highlighted the role of mutual societies in Europe, one of the most significant (Grijpstra, Broek, Buiskod & Plooi, 2011) presents an outline of the characteristics and the role of mutual societies in the different European countries. Analyzing their legal framework and discussing the performance of mutual undertakings during financial crisis the key findings are that mutual societies have a long history in several European countries, their role is determined by the way how social protection systems are organized and that mutual undertakings are more resistant to the current crisis than joint stock insurance companies.

Also the literature provides a broad summary of the mutual undertakings activities, adding the mutual society importance and role for many European countries in figures, as an improved assessment of the current situation of mutuals (Broek, Buiskool, Vennekens & Van der Horst, 2012).

On the global basis, according to ICMIF's annual survey of the mutual/cooperative insurance sector (2014) from the start of the global financial crisis, the market share of mutual/cooperative insurers increased from 23.4% in 2007 to 26.7% in 2012, this report also provides data for European mutual and cooperative insurance sector.

2.2 Definition of mutual societies

Mutuals differ generally between countries as they follow diverse activities and their definition has always been hard.

According to a definition of the European Commission (2003):

Mutuals are voluntary groups of persons (natural or legal) whose purpose is primarily to meet the needs of their members rather than achieve a return on investment, which operate according to the principles of solidarity between members, and where members participate in the governance of the business (as cited in Grijpstra, Broek, Buiskod & Plooi, 2011, p.14).

The relation membership-policyholder, one-person-one-vote principle and absence of shares serve as distinctive features of mutual societies and other organizations of the social economy. Also, solidarity is very important characteristic, *''today, that means joint liability and a cross subsidisation between good risks and bad risks and no discrimination among members''* (Grijpstra, Broek, Buiskod & Plooi, 2011, pg. 19).

EAVA -European Added Value Assessment (2013), after summarizing mutual features called for an effort to provide mutual societies with a statute and highlighted the main benefits of a statute for the European mutual society, *''the need mutuals to be recognized by the law excludes those organizations that share mutual features and are legally considered as associations or cooperatives''* (p.7).

Broek, Buiskool, Vennekens, & Van der Horst's study (2012) recognized around 40 types of mutual-like organizations in Europe. They can be classified as follows:

1. Mutual benefit societies and health societies providing different services to statutory social security systems,
2. Mutual insurance associations, that offer life and non-life insurance,
3. Mutual societies that bid additional services such as credit or housing entities,
4. Mutuals that offer statutory welfare coverage.

The point of interest of this thesis will be the mutual insurance associations.

In that sense *''Insurance mutuals are insurance companies managed by their members, to be protected from property, personal and social risks on a voluntary basis''* (Archambault, 2009, the definition section, par.1).

According to AMICE (Association of Mutual Insurers and Insurance Cooperatives in Europe), *''A mutual insurer is an insurance undertaking which is collectively owned by its members who are at the same time its clients (policyholders)''* (AMICE, n.d).

If we refer Austria, there is no general definition of a mutual society, there are only insurance mutual associations recognized and creating a non-insurance mutual is not possible. Insurance mutuals in Austria are only active in voluntary/supplementary health insurance, not in compulsory health insurance (Broek, Buiskool, Vennekens & Van der Horst, 2012).

According to Art 3 of the VAG/ Insurance Supervision Act (Versicherungsaufsichtsgesetz, n.d), insurance organizations can operate in the legal forms of a joint-stock company (Aktien-Gesellschaft), a European Company (SE) or a mutual insurance association (Versicherungsverein auf Gegenseitigkeit).

Art. 26 - 73 of the VAG contain special rules for mutuals, concerning the establishment, organization, capital, winding up, mergers, and demutualization.

There are also special provisions for branches of foreign mutuals and small mutuals.

In Austria there are two forms of insurance mutuals, a distinction is made between (ordinary) mutual insurance association and small mutual insurance associations.

Ordinary insurance mutuals, are also known as large insurance mutuals, they are allowed to be active in all insurance classes, both life and nonlife and reinsurance.

In the context of the Internal Market, ordinary insurance mutuals may offer their services abroad, regardless of whether mutuals are permitted to do insurance business in the country where the services are being provided. They need to have a management board, a supervisory board and a general meeting of members or a council of members' representatives as supreme body (Art 43).

Ordinary insurance mutuals are free to set up subsidiaries which may either be located abroad, may set up branches in other countries or may provide cross-border services. But, nothing foreseen in Austrian law to create (national or) European groups of mutuals (Broek, Buiskool, Vennekens, & Van der Horst, 2012).

Small mutual insurance associations- according to Art. 62, (Insurance Supervision Act) a small mutual association is a mutual association which is limited in its operation with regard to territory, type of business and group of persons. The FMA (Financial Market Authority) decides whether a mutual association shall be considered a small mutual association.

2.3 A brief historical background to the creation and development of mutual societies

The foundation of mutual societies (mutual benefit societies) dates back to ancient times, but they increased their meaning in some European countries during the middle ages and the number as well as importance of these organizations succeed in 19th century and the beginning of the 20th century when mutual benefit societies together with mutual insurance associations intensively performed in Europe (Grijpstra, Broek, Buiskod & Plooi, 2011; Archambault, 2009; CIERIC, 2007; European Commission, 2003).

Firstly, mutual societies appeared as mutual benefit societies in the practice of charitable brotherhoods or friendly societies, they were founded to help the needy members (or their family) of the organization in the case of illness, death or other non-greedy situation (Archambault, 2009).

Later, during 19th century, the industrial Revolution and rural depopulation, weakened the existed solidarity between the family members or between people of the same village (Grijpstra, Broek, Buiskod & Plooi, 2011). As a result, industrial workers and different

professional groups assembled funds against social and property risks that was related with their work. For example, factory and railway workers and later teachers and retailers organized funds to cover costs related to social risks such as sickness, disability and old age; on the other side farmers also joined their savings to be protected from fires, accidents or bad weather.

According to Hornsby and Wilson, (1997):

Mutual organizations were formed out of the common needs of working-class communities during the Industrial revolution for protection against the insecurities of life. They were usually funded by many small contributions, since only by aggregating the small savings of many people could a capital fund be created. Membership was a mechanism to ensure that the organization continued to serve the needs of all its contributors. People did not create Mutuals to derive a profit, or to seek a capital gain, but in order to benefit from a service (p.2).

Regardless of their form mutual societies were “...*the forerunner of the welfare state...*” (Archambault, 2009, p.3) and they are very important for “...*founding principles of universal social protection*” (Steering Committee of Mutual Benefit Societies, 2013, p.2).

During the 20th century through modification and modernization of the company law, legal provisions were adopted in many European countries to control and regulate the establishment and operation of mutual societies. Public social insurance systems or national health services were established to offer “protection” for all people. Consequently, welfare states defied the mutual societies, enforcing them to become part of the obligatory social security schemes or national health services, these actions varied the role of mutual societies in European countries (Archambault, 2009), in some countries they still are very important. For example, in UK the social protection system excluded the participation of risk protection companies; in some countries insurance mutuals remained as part of the social security system offering a greater and better risk coverage supply, or in some other countries mutual benefit societies are managing the compulsory health insurance system in special regions (Grijpstra, Broek, Buiskod & Plooi, 2011).

In Europe, based on the activities they complete, generally two large main types of mutual societies are dominant, the "mutual benefit" i.e. health oriented societies and "mutual insurance" societies. (Grijpstra, Broek, Buiskod & Plooi, 2011).

To highlight the indications of mutual insurance societies, they “... *can be found in the second part of 19th century when the progress of probabilistic mathematics transformed insurance in a modern industry*” (Archambault, 2009, p. 3).

In Europe, through the expansion of the industrialization and international trade came to an insurance internationalization, and only later appeared the form of social insurance, as support for solving social matters (Rohrbach, 1988).

The above mentioned developments in Europe serve to enrich and better understand the performance of insurance mutuals in Austria.

If we refer Austria, according to Rohrbach (1988) “*Die ersten Versicherungen galten den Seetransporten, sie wurden im alten Österreich zuerst im 18. Jahrhundert in Triest gegründet*” (as cited on Werner, 2014 p.1) , but, the modern insurance industry began in Austria since the end of the 18th century (Lehner, 2007).

Since that period, in the old Austria, two main forms of insurance institutions were active: mutual associations and profit oriented, joint stocks insurance companies.

The number of both institutions were very important, most of Trieste sea transportation insurance companies were organized as joint stock companies and the other associations against fire, water and weather damages as insurance mutual associations (Stubenrauch, 1857, p. 316).

Besides sea transportation insurances other forerunners of the modern insurance industry were church funds accomplished to support seek people, brotherhoods guilds or different self-oriented associations and finally the famous farmer insurance mutuals to protect themselves against fire, known as “Bauern-Assecuranzen” (Holzer & Stickler, 2011, pg. 7-8).

The development of the modern insurance industry in Austria has been initiated with the mutual institutions in the field of fire damage insurance.

Discussions regarding fire-damage insurance organization in the Austrian empire existed since 1740, when Maria Theresia initiated the debate about the organization of fire damage protection insurance. However, this attempt was defeated each time by two influences, namely, there was in that time Austria sufficient fire prevention regulation and that an establishment of these institutions could induce abuse, (for example, some “trouble” position houses could initiate dishonestly fire to put themselves in the possession of compensation). Other encouragement of this idea can be found in 1798 from the side of the Kaiser Franz II, once again reported are proposals for establishment fire damage insurance institutions based on the principles of reciprocity and voluntarism (Werner, 2014). The next step is the recommendation of the Galician Hofkanzlei (Galician Court Chancellery) in 1801,

which stated that mutualism principle should be taken into account when founding insurance companies, but a special decree posted for mutual insurance associations as legal form did not exist. According to these principles are organized the fire insurance mutual institutions in Salzburg and Oberösterreich in 1811 and in Tirol in 1823 (Werner, 2014, p. 3).

Due to the lack of an own Insurance Act in Austria in the 19th century, the general Civil Code covered the legal framework of these institutions.

For the continuous development important is the resolution of the Emperor Franz Joseph I, according to this resolution the fire damage insurance enterprises could be established by private organizations which would have the total support of the Emperor (known as Magna Carta, 1819). This motion resolved an essential founding perspective primary as mutual and then as joint stock insurance organizations (Holzer & Stickler, 2011, p. 8).

The concept of the insurance in 1800 was already well advanced in many European countries, such example of that is the development in Saxony. The officer, Major Georg Ritter von Högel Müller, in Dresden, “observed” the fire insurance practice, and brought this idea in Austria. Since 1803 he tried to establish in Austria these kind of insurances. In 1822 he published the relevant proposal for fair damage insurance institution where he stated that these institutions are insurance mutuals without profit intention (Werner, 2014, p.5).

Numerous approval explanations for this idea were already presented and were available to the authorities. A number of corrections from different professionals were made in order to advance the content of this proposal (Werner, 2014, p.6). Only in 1825, under the highest Kaiser protection, the first private modern insurance mutual association in Austria, the mutual “k. k. privil. Brandschaden-Versicherungs-Anstalt” commenced its operation. Soon it had 31.841 members and 57.956 insured houses (Werner, 2014, p.8).

Its founding process took more than 21 years (Lehner, 2007, p.185). This insurance mutual association had all characteristics of the mutual associations, it was latter transformed to the Wiener Städtische Versicherung, an enterprise of Vienna Insurance Group (Werner, 2014, p. 8).

The “k. k. privil. Brandschaden-Versicherungs-Anstalt” was an example model for the “k. k. privil. Innerösterreichische wechselseitige Brandschaden-Versicherungs-Anstalt“ für Steimark, Kärnten und Krain (Imperial and Royal privileged central Austrian Mutual Fire Damage Insurance Company for Styria, Carinthia and Carniola) the actual GRAWE insurance company (Werner, 2014, p.9). On the other side, this institution positioned the foundation

stone for the Grazer Wechselseitige, which has continued its operation for more than 180 years.

Also in 1824 took place the foundation of the first joint stock fire insurance company, the foundation was carried out by an association of rich aristocrats and bankers (Werner, 2014, p.10).

After the founding of insurance mutuals there was a severe competition between insurance mutuals and joint stock insurance companies. Joint stock companies accused the insurance mutuals that they are trying to attract customers with low payments, but it will be demanded at the end of the year for successive payment premiums, so that the members-only later will “recognize” the total premium. On the other hand, the insurance mutuals accused joint stock insurance companies that for them is meaningful only the profit intention and therefore they are saving in the damage elimination (Werner, 2014, p.11). This duality led the "k. k. privil. Brandschaden-Versicherungs-Anstalt" to organize a press campaign about this topic, in order to explain the advantages of insurance mutuals and to convince the insurers that it is of patriotic value to belong on a such art of insurance (Werner, 2014, p. 11). The insurance mutuals had the reputation of a generous demand settlement, this is because they don't have the compulsion for a great dividend payment, which is the case for joint stock insurance companies.

The mutualism principle was in Austro-Hungarian monarchy present in many industry sectors, for example in the sugar sector. Insurance mutuals were favorable and opportune way of insurances, and merely for the economic purposes was driven the joint stock insurance form (Werner, 2014, p.12).

In 1852, with the “Vereinspatent” is established the first legal basis for insurance mutual associations which dictated the certain structures and rules, it applied also for joint stock insurance companies, and not as own or special legal foundation for insurance mutuals. Historically this “license system” was very important until the end of the monarchy.

Stubenrauch (1857) presents a general overview of private associations in Austrian imperial state during the end of the year 1856, the statistical illustration of associations in that period communicates that association's life in Austrian empire has flourished and it was very expected that it will be more encouraged in the future, in the entire region were counted 6213 associations, 120 out of which in the insurance associations area (Stubenrauch, 1857, p. 9).

The support and liberal authorization initiated large and unhealthy increase of insurance suppliers, a significant number of which found themselves on liquidation and bankruptcy.

The answer of the Kaiser was the creation of i.e. *Assecuranz Bureaus* (1880), with it all insurance branches fallen under public umbrella. “This *Assecuranz Bureau* was the oldest forerunner of the insurance supervisory in Austria “, (Holzer & Stickler, 2011, p. 8).

The operation of that time insurers were strictly monitored, however, over that period in the old Austria there were 40 big insurance companies with 50 million potential customers, which presented very attractive and competitive insurance market.

Since the insurance supervision of 1880 two legal forms for private insurance were approved, having already the Associations Act 1852 according to which the foundation of the insurance institutes was subjected to a licensing requirement, the insurance regulative 1880 predicted two possible legal forms, i.e. the mutual and the joint stock form.

Only with the ministerial regulation of 1880 (the first supervisory of the insurance industry) involved were special determinations for insurance mutual associations but this was replaced with the regulation of 1896, this regulation clarified the mandatory legal form of an insurance company. There wasn't still any special law for this legal form, other than for the joint-stock companies or cooperatives.

In general, the same supervisory legal conditions applied for joint stock and insurance mutual associations (for example same regulation about the premium reserves, the capital investment, accounting and supervising standards). For joint stock companies was required the establishment of the stock or share capital and for insurance mutual associations the founding fund (Korinek, 2008, p.157)

Also, there was any approval of a separate Insurance Supervision Act until the time of the first Republic. The regulative of 1896 was replaced with new regulative the one of 1921, but also this regulation didn't provide an adequate legal basis and on the following years it was supplemented by a number of laws.

The World War I and the financial crisis was catastrophic for the new Austrian insurance market (after the monarchy decay), everything was destroyed but the Insurance Law remained “unmarked”, the same as was in the monarchy (Holzer & Stickler, 2011).

During the First Republic, the insurance market experienced a collapse, the breakdown of the key players or the largest insurance organizations i.e. “Phönix-Skandal” (1936), the politics responded imposing more strict legal provisions.

During the Second World War the total industry was on bankruptcy, the Austrian law was replaced by the German one. After the war the commitment is focused on the survival of the insurance industry in Austria. From 1939 to 1978 in Austria was applied the German Insurance Supervision Act.

Only in 1978 Austria had its own Insurance Supervisory Act (Lehner, 1997, 2007, p.186). This Act still forms the basis of the statutory insurance supervision, although it is modified with various amendments over the time.

For example with the amendment of 1986 were generated special rules on capital adequacy, participations and supplementary capital, internal control.

Or, during 1990-1991 took place the harmonization of accounting rules with the EU law.

This kind of state supervisions has continued to meet decisions in the areas of licensing, consumer protection or pricing.

The Act embraced from the German one strict regulations for the insurance market. But, when Austria was approaching the EU, it adopted modifications in order to deregulate supervision of insurance market.

The Austrian effort to become part of the EU conveyed deregulation in the insurance industry and performed numerous necessary adjustments of the VAG. Changes will happen later in the function of strengthening the supervision of financial institutions, rules regarding the use of derivative financial instruments, also directions for consolidated financial statements etc.

There have been also changes regarding the supervision of an insurance group, the investment structures the amounts of minimum capital requirement or the harmonization of accounting procedures with the IAS principles (Holzer & Stickler, 2011, pg.39-40).

The supervisory tasks passed to FMA (Finanzmarktaufsicht), the Financial Market Authority, as an independent, autonomous and integrated supervisory authority of the Austrian financial market, on 1 April 2002.

For insurance mutuals was important the amendment of 1991 that gives details about the change of the legal form of insurance mutual associations and the amendment of 2005 according to which a mutual insurance association that has already transferred all its insurance activities into an operative subsidiary joint stock company may then choose to transform itself into a private foundation.

Finally vast importance is given to the solvency issues, elaborated well in the Solvency II model topic.

Reflected also to the above mentioned historical background, nowadays it is fact that the number of insurance mutual associations in Austria, in the last decades, has decreased. In the first phase of the Insurance Supervisory in Austria more exactly in the Austro-Hungarian monarchy during 1880 and 1918 there were the balanced number of insurance mutual associations and joint stock insurance companies also in the 1970s the half of the Austrian

insurance companies were insurance mutual associations with near 30% of the total paid premiums, in 1994 there were only 11 insurance mutual associations and today survived only 6 of them (Korinek, 2008, p. 155).

2.4 The most important law arrangements for large insurance mutual associations

Next will be summarized the main law arrangements that apply for large insurance mutual association in Austria. The text is based generally on the literature provided by the study of Broek, Buiskool, Vennekens and Van der Horst, (2012, pg.7-20) and the the Insurance Supervisory Act (Versicherungsaufsichtsgesetz, n.d) . The most important law arrangements are, as follows:

The name of the mutual company:

According to §27 of VAG (ISA-Insurance Supervisory Act) mutual associations intend to be entered in the company register and §28 VAG besides the name of the association it should be mentioned that the insurance will be operated via mutuality, also the shortening V.a.G is considered sufficient.

Legal types of mutuals:

As mentioned above, there are (ordinary) large insurance mutual associations and small mutual insurance associations.

The manner of creation:

The creation of a large mutual insurance association is based on the issuance of a license (Art 31). This license is granted by the FMA. Insurers share the same conditions in order to obtain a license .Large insurance mutuals have to be registered in the company register as Art 36(1) foresees. All management and supervisory board members have to apply for the entry of the association in the company register at court. The registration is achieved after the foundation fund has been paid in.

The initial fund:

According to Art.34 (1) VAG for the formation of a mutual association, a foundation fund have to be created, which will be used for the payment of the initial costs for the

establishment of the association, the organization cost and other costs related to beginning of the business activities, the fund may also be used to cover operating losses.

Additionally, according to Art. 34 (2) the articles of association will contain provisions in order to repay the foundation fund and, if it is not repaid, provisions concerning its use.

Finally, Art. 34 (3) according to which FMA may relieve a mutual association of creating a foundation fund if the defrayal of the initial costs of the association are secured in another way.

The next Art. 35 (1) refers that the business activities can start after the foundation fund is totally paid in cash.

The management of the mutual company:

The Art. 43 states that the large mutual insurance associations must have a management board, supervisory board and a general meeting of members or a council of members' representatives as supreme body.

Art.44 the responsibility of the management board is to manage the company on the interest of the association, members, employees and the public interest.

The supreme body, conferring Art. 47(1), elects the supervisory board members.

The supervisory board has to supervise the management and it has to assemble the supreme body when it is on the interest of the association.

Rights of members:

The membership of the insurance mutual association is reliant on the insurance contract.

But, mutual insurance associations may also conclude insurance contracts without establishing membership, acceptable according articles of association Art. 32.

Members exercise their rights in matters of the company in the supreme body unless the law specifies otherwise, this is according Art. 49(1), (Broek, Buiskool, Vennekens & Van der Horst, 2012, p.10).

Voting and representation of members:

Art 49 (2), the supreme body shall either be the general meeting of all members or the meeting of representatives of the members (council of members).

Art 49 (3), the supreme body shall decide in cases particularly specified by the law or the articles of association. “The supreme body may only decide on management issues if the management board or, in the case of a business transaction requiring its consent pursuant to Art. 95(5) AktG, the supervisory board demands so” (Broek, Buiskool, Vennekens & Van der Horst, 2012, p.10).

Art.50 (3) specifies that the decisions of the supreme body involve a majority of the votes i.e. the simple majority of votes unless the law or the articles of association specify a larger majority.

The possibility to issue shares (if any):

Generally, insurance mutuals cannot issue shares. Large mutual insurance associations may however– with the supreme body’s accord – raise participation capital and supplementary capital and issue securities on it in accordance with Art 73c (7).

Reserves and surplus distribution (Art 42):

Any annual surplus shall be distributed to the members unless:

- it is allocated to the contingency reserve or other reserves stipulated in the articles of association or
- it is used for the repayment of the foundation fund (initial fund)or
- it is used for the payment of remunerations according to the articles of association or
- it is carried forward to the next financial year (Broek, Buiskool, Vennekens & Van der Horst, 2012, p.11).

The articles of association regulate the principles of distribution of the annual surplus and specify whether the annual surplus is also to be distributed to members.

Possibility for non-member investors:

Large mutual associations may (with the supreme body's agreement) increase the participation capital and supplementary capital and issue securities on it in accordance, Art 73c (7). "Participation capital Art 73c (1) has equity features while supplementary capital (Ergänzungskapital) (Art 73c (2)) is a form of subordinated Loan/bond" (Broek, Buiskool, Vennekens & Van der Horst, 2012, p.12).

Transparency, publicity requirements and auditing issues:

Accounting, auditing and reporting rules for large insurance mutuals follow in general the rules for all insurance undertakings.

Small mutual insurance associations (except if their premiums are higher than 5 million € for three years), Art 86 provides for considerably lower accounting and reporting requirements.

The legislation and functioning of mutuals:

The legislation on taxation issues excludes any preferential treatment for insurance mutual associations and there are no special rules for large mutual insurance associations, they are treated as joint stock companies.

Also, concerning legislation on employee involvement systems, nothing precisely foreseen for insurance mutuals. If insurance mutual associations have a supervisory board, the same rules as joint-stock companies regarding employees' representation apply.

Regarding the possibilities and regulations with respect to the demutualization

The VAG regulates the following types of change:

- The dissolution and liquidation – as the Art 56 and 57
- The transfer of the portfolio – as the Art 58
- Mergers -as the Art 59
- The transfer of assets to a joint-stock company – as the Art 60
- The transformation into a joint-stock company – as the Art 61
- The transfer of insurance activities into joint stock company- as the Art 61a-61c, 61e

- The transformation into a private foundation – as the Art 61f, (Broek, Buiskool, Vennekens & Van der Horst, 2012, p.13).

The activity of the mutual company:

The Austrian law foresees that for-profit associations can be created only in the insurance industry as insurance mutual associations (also there is a small number of association-type savings banks).

Other for-profit associations, like those regulated under an old law of 1852, were restricted in 1999. Insurance mutuals are free to set up subsidiaries.

Issues concerning cross border barriers:

Large insurance mutuals may offer their services across borders, regardless if they are allowed to do insurance business in the target country where they want to provide their services.

They are also allowed to establish subsidiaries which also can be located abroad, set up branches in other countries or may provide cross-border services.

The possibility of transferring all insurance activities to a subsidiary joint stock company as foreseen with Art. 61a-61c VAG offers the occasion to “catch” external capital for the subsidiary without necessarily losing control of the activities of the subsidiary.

This model was practiced in Austria with the intention of strengthening the sector and solving financial tasks for insurance mutuals.

If the operative subsidiary company attains clients abroad these clients become members of the parent mutual company, unless otherwise is foreseen in the articles of the operative company.

Issues concerning cross-border cooperation and local subsidiaries:

Nothing foreseen in the Austrian law to create national or European groups of mutuals and there are no example cases of cross-border co-operations and their legal form.

Examples of autonomous expansion across the frontiers of mutuals:

Die Österreichische Hagelversicherung also carries the activities abroad, like in Slovakia, Hungary and Czech Republic. This insurance mutual association trades its “products” via the host country domestic insurers, mostly joint stock companies.

Also, Vorarlberger Landesversicherung sells its life insurance products in South Western Germany by a cooperation with a local broker (Broek, Buiskool, Vennekens & Van der Horst, 2012, p.19).

Tiroler Versicherung drives a branch in Bolzano, Italy, where it provides its offers. Italian members are represented in the supreme body (Broek, Buiskool, Vennekens & Van der Horst, 2012, p.19).

Issues concerning national measures, for promoting mutuals and measures aiming at access to finance for mutuals

There are available some instances that allow insurance mutuals to attain financing. For the internal financing are known actions as attaining non-member clients, increasing the members’ contributions or investment titles etc. For the external financing are known banking loans, issuing of bonds or of specific investment funds.

The option for insurance mutuals to transfer insurance actions into a joint stock company while retaining the mutual insurance association, through this actions insurance mutuals may search for outside investors, if they keep 26% of the voting rights.

State support for insurance mutual associations:

There aren’t any special rules for mutual insurance associations in Austria for actions such as subsidies, special tax incentives or fiscal allowances, competitive encouragements for mutual insurance associations to “defend” and support mutual specificities. On the other hand, hail and frost insurance receives public subsidies.

“This is one of the main reasons why hail insurance has been established in the form of a mutual association in Austria” (Broek, Buiskool, Vennekens & Van der Horst, 2012, p.19).

There is not any national, regional or local special policies aiming the mutual promotion, support services or specialized agencies for insurance mutuals.

However, there are some organizations that cover both insurance forms of companies. Very important organization for the insurance industry is the Austrian Insurance Association (VVO), which is an autonomous body representing the common interests of private insurance companies operating in Austria. VVO has 143 members, 127 of which have their registered offices in Austria, including the insurance mutual associations. (VVO, n.d).

Also the Association of Regional Insurers includes six regional insurers of which three companies are in the form of a mutual insurance association. They work together in various areas of insurance industry through the exchange of information and experiences, for the promotion of their actions and training programs for their employees.

2.5 A Statute for European Mutuals

The central principles governing the internal European market guarantee for companies the free movement of goods, services and capital, providing same competition rules between different organizational forms that are operating on a market.

The EU internal market rules are also relevant for insurance operators, and they are mainly designated to for-profit organizations. But, these rules do not always support the operation of other company forms that operate on the same market.

Now it is already fact that mutuals present a significant share of the insurance market in Europe. Also , ” *The activities they realize are mainly covered by European rules on the internal market and competition*” and “...the insurance market is likely to become more uniform in the future and mutuals may be forced to progressively act like the stock holding companies, or to demutualize” (Grijpstra, Broek, Buiskod and Plooi, 2011,p. 56).

Likewise, the services that some mutual provide “touch” the characterizations of social services of general interest' referring the European law and it is complicated to determine how these market and competition rules are relevant to them (2011).

Although the presence and participation of mutuals is great in many Europeans countries, there are also places where they are not known or where the law prohibits their establishment, therefore, it is very difficult to find a constant definition and legal form for this type of company in Europe.

Therefore since the 90's rose the idea of designing a legal “tool” that will allow the creation of European mutual societies.

The statute for European mutual societies provides an equal playing arena sharing the same prospects to enhance the European dimension in organizations (JURI, 2013). *“It would also provide them with adequate legal tools to facilitate their cross-border and transnational activities, as well as with a way to group and develop their organization and activities in the Single Market” (JURI, 2013, p.6).*

Initially, in 1992 a Regulation for the European Statute for Mutuals was for the first time officially proposed by the European Commission accompanied with Statutes for Cooperatives and for Associations, with the aim to evolve the legal recognition of the third sector in the European Union.

In the beginning, the European Commission embraced the idea of a statute for European mutuals societies (JURI, 2013) sharing the opinion that: *“mutuals, like all other organizations within the social economy, should be able to take advantage of the single market in the same way as other companies can and without having to discard their specific characteristics”* (as cited in Grijpstra, Broek, Buiskod and Plooi, 2011, p.49)

But the legal practice on the Statute remained “stuck” in Council (2011).

In 2003, the European Commission released a consultation document titled “Mutual societies in an enlarged Europe” in order to recommence the planned instrument and to notice the special difficulties mutuals face when operate across borders. But, in 2006 the European Commission closed this legal initiatives.

Despite this withdrawal, the reality knows other additional attempts to revive the concept of the European Mutual Society and to propose new draft statutes.

A significant example is the attempt of the three representative associations (AIM (Association Internationale de la Mutualité), ACME and AISAM, now AMICE (Association of Mutual Insurers and Insurance Cooperatives in Europe), these organizations systematized a common proposal for a mutual statute in 2007. (JURI, 2013).

Their statute was based on the Statute for a European Company (SE) and the Statute for a Cooperative society (SCE), adopted to the specific characteristics of mutuals.

It presents a new version of the twenty-year old proposal. Furthermore, it highlights the possibility of mergers between mutuals. This statute allows for European mutuals to be formed in various ways (Grijpstra, Broek, Buiskod and Plooi, 2011, p.52), as:

- by creation, decided by at least two mutual societies, including or not their subsidiaries, which fall within the law of at least two different Member States, or by five or more natural persons resident in at least two Member States;
- by conversion of a mutual society, including or not its subsidiaries;
- by merger of mutual societies, including or not their subsidiaries which have their registered office and head office within the European Union, if at least two of them fall within the law of two different Member States;
- by merger of at least one mutual society with another legal entity provided that the absorbing legal entity is the mutual society which has its registered office and head office within the European Union, and that at least two of the entities fall within the law of two different Member States.

The statute is expected to be very important for the future development of the mutual insurance sector, it will allow to the insurance mutuals:

- visibility , in order to expand the concept of mutualism through the European Union, so the economic wellbeing will be increased through a more democratic and resilient corporate model,
- economies of scale and also will promote an effective implementation of the Single Market through improving cross-border trade and arrange the organization of the of mutual societies groups,
- arrangement for better legal certainty to mutual societies and other interested groups, these actors will be advantaged from constant and standardized rules, this will drive to costs savings,
- promotion of a widespread social economy (JURI, 2013, p.4).

In general, the statute proposed by the European organizations of mutual societies is more appropriate for mutuals that want to merge or create groups with foreign mutual companies and work together on a regulated legal basis (Grijpstra, Broek, Buiskod and Plooi, 2011).

Since this legal business form is not recognised in all European countries there are no legitimate instruments that allow them to create mutual companies, mergers or groups in all EU countries. Joint stock companies that operate in the same market do not have these kinds of problems.

The intention of offering identical playing field for mutuals continued, so on March 2013 the EU Parliament approved a supportive resolution with a "Report with recommendations to the Commission on the Statute for a European mutual society" where are exposed the difficulties that mutuals face when they want to operate in foreign countries and where is also highlighted the precedence for a Statute for European mutual societies (European Commission, 2014a).

On the same time, the Commission initiated a public consultation in order to assess the operational barriers that mutuals face when operating cross-borders. This consultation accepted 305 responses from representatives of 16 Member States (2014a).

The outcomes of the study supported the proposed solutions of EU action in the form of a Statute for a European mutual society although there were also some opinions (mostly from Germany and Netherlands) that there is no requisite for such instrument because of the existed rules on the freedom of establishment and offering services in the insurance industry guaranteed by the Treaty and existed consolidation manners of assets between mutuals (2014a).

Finally on 11 March 2014, members of the Section for the Single Market, Production and Consumption of the European Economic and Social Committee accepted the draft initiative for a European mutual society (2014 a) and this serves as “green light” for the Statute of the European mutual societies.

2.6 The Solvency II

Since the end of 90's a decision was made at European level which stated that insurance performers must operate under predetermined capital requirements. Even that the first step to comply with this regime was Solvency I, it was appreciated to be only a static initiative which operated as temporary key.

The regime was not risk sensitive, and a number of key risks, including market, credit and operational risk were either not captured at all in the required solvency

margin or not properly taken into account. As a result, the Solvency I regime did not offer an optimum level of policyholder protection (European Commission, 2014 b, section 3.2)

Consequently this step had to be substituted by a design for an inclusive risk-based model which is more adaptable than the Solvency I model and additionally to care for qualitative features, for instance the risk management.

Therefore, the Solvency II is a directive that corresponds with the regulation of the insurance industry in the European Union.” *The main aim of the new requirements is to improve protection for policyholders against failure of (re)insurance undertakings*” (Weindorfer, 2011, p.4)

Solvency II is a basis for the regulation and supervision of insurance enterprises in the European Union, its framework directive was approved on April 2009, modified in 2014 by the Directive "Omnibus II", and due to be applied on January 2016. Solvency II will offer to insurance industry a modern solvency regime that corresponds carefully with the approach the industry manages its business (Hulle, 2011).

But what are the changes that Solvency II will bring? According to the ICMIF the main differences from Solvency I, are:

- The transfer from a rule-based to principle-based regulation;
- The modification from the minimum harmonization situation, which used minimum amounts of financial resources to a risk based regulation with a principle-based risk management approach;
- The more progressive and communicative management of risks
- The total balance sheet method, where the eligible capital is the variance among the market valuation of assets and liabilities, this is pretty more representative design of the required solvency capital ;
- The greater and improved level of reporting which involves additional challenges concerning the management of the data (n.d. , par.2)

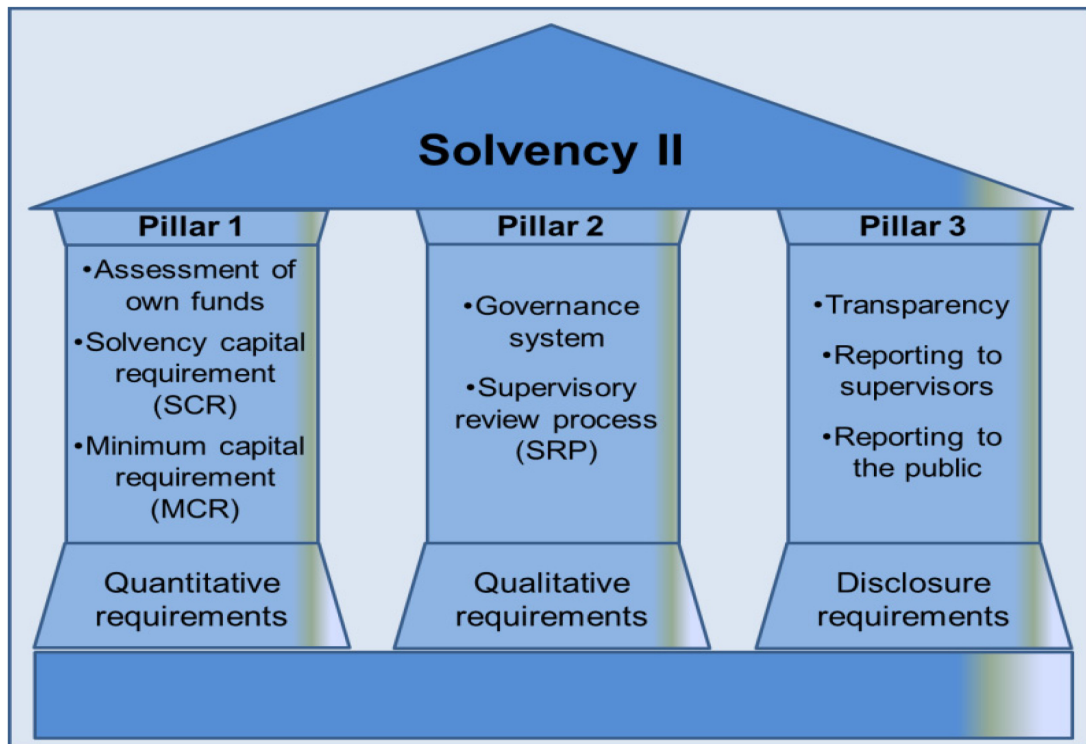
If we consider the advantages of Solvency II, according to CEA, Solvency II offers a number of essential improvements:

- The market valuation of assets and liabilities and clear and exact measurement of risk capital.
- The complete, balance sheet method that covers all types of risk that can be quantifiable
- The greater risk awareness that comes from higher risk transparency and to involve these in key decision-making processes.
- As rule of risk management best practices is to deal with the source of problems, not symptoms – this is the risk management focus.
- To use a ranking interventions, that is starting from a higher constraint, for example a solvency requirement, and ending at a lower constraint, for example minimum capital requirement.
- Group supervision, as the real aggregated economic profile of groups, in conjunction with supervision at legal entity level.
- Market discipline driven by full disclosure of the risk profile (CEA,2010, p. 17)

The structure of the Solvency II is based on three pillar system, they are defined as follows:

Pillar I defines the financial resources that a company needs to hold in order to be considered solvent, the Pillar II defines more qualitative requirements and generally grants more powers to the supervisors, and finally Pillar III addresses risk disclosure requirements introducing control by the market and the consumers (CEA,2007, p. 5).

Figure 1 : The 3 Pillars of Solvency II



Source: Weindorfer, 2012, p.5

The first pillar covers two capital requests, the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR), they characterize different grades of supervisory involvement. The second and third pillar offer for qualitative requirements and supervisory reporting and disclosure respectively, (Grijpstra, Broek, Buiskod & Plooi, 2011, p.42).

According to EIOPA (European Insurance and Occupational Pensions Authority) the aim of this scheme is to promote capital adequacy and capability, to provide greater transparency and improve the supervisory practice in order to provide better risk management and to protect the policyholders (as mentioned in KPMG, 2011, p.6).

Between 2005 and 2013, EIOPA has involved five Quantitative Impact Studies (QIS) and an additional impact analysis known as Long-Term Guarantee Assessment, they serve as field analysis in order to test the operability of the Solvency II and to identify gaps where supplementary commitment and devotion is needed.

It is very important for insurance companies to participate in these field studies, it's a way to represent the individual companies' position and, afterwards, the national position. (FMA, 2014a)

The fifth Quantitative Impact Study results presented “the time well-positioned insurance industry” to come across the new solvency requirements, (European Commission, 2014b, section 2.2.1). EIOPA’s report on QIS5 stated that European insurance sector has the financial power against Solvency II requirements, with eligible own funds in excess of regulatory requirements by EUR 375bn.

In Europe, 15% of the participants did not fully cover the SCR, and that would create regulatory action. But, fewer than 9% of participants covered 75% or less of the SCR, and only under 5% of the participants did not fully cover the MCR, which would generate the most serious intervention from the supervisor, this is the withdrawal of the license (EIOPA, 2011, p. 7).

QIS5 report also declared other non-quantitative matters for which it will be required additional attention of the industry in preparing for Solvency II, for example governance, risk management and reporting requirements (2011, p.16).

In Austria, five international field studies (and one national field study, QIS 4.5) were realized. In 2009, the FMA offered insurance undertakings in Austria the possibility to participate in a national quantitative field study, QIS 4.5, in order to prepare competently for future requirements of the Solvency II, (FMA, 2014a).

In 2010 the QIS 5 was carried out, from November to August in the study participated 33 of 47 (large) insurance undertakings (excluded are small insurance mutuals that aren’t under the regime of the Solvency II)

It is known from the EIOPA’s report that in European level 15% of insurers held insufficient eligible own funds to cover their SCR (as cited in Weindorfer, 2011,p.17).

In Austria 6% of insurers failed to meet the SCR requirement; 3% of insurers in Austria failed to cover their MCR and for EEA insurers this figure was 5% (Weindorfer, 2011, pg.17-18). Austrian insurers perform, under Solvency II, to report a higher SCR coverage than the EEA overall.

Based on the results of the Austrian QIS 5 the insurance industry is well prepared to embrace the Solvency II requirements, and FMA focused on fulfilling the qualitative requirements, for instance the governance, risk-management, intern processes like consistency of the data and methods (FMA,2011a,p.4).

The benefits of the Solvency II regime for insurers are that the capital requirements will allow achieving optimal capital allocation; reduction of unnecessary regulatory limitations and coherent application of this directive is considered also to be crucial in order to enhance the competition within the EU insurance markets. (CEA, 2007, p.10). The advantage for the

consumer is the protection against the risk of failure and the increased competition will provide more choice and a better deal (2007).

The policyholder generally will have more information, available in the Solvency Financial Condition Report (VVO, 2014, p.23).

On this point of reference is very normal to ask why solvency II?

Based on the crises that swept firstly the banking sector has encouraged authorities to think how to "improve" their financial systems, so therefore the insurance industry in Europe continued to support the dares of the Solvency II (Dalziel, 2013).

Although the first draft of Solvency II arose already before the bank financial disaster, this crisis assisted its adoption and lead to strengthen instruction to recuperate the insurance regulation and supervision.

Solvency II is seen as crucial to monitor the financial health of insurers and therefore protect consumer interests, the competition and consumers (Dalziel, 2013).

"Solvency II is not just about risk measurement and quantification, rather it is about effective governance and risk management" (CEIOPS, 2009, p.3).

But, its implementation, evidenced to be difficult, for instance the Solvency II requirements can harm the insurance market and national regulators interest (2013). There are still open discussions about this topic.

Also, if the focus is on insurance mutual associations *"the new solvency regime can have severe effects"*, (Grijpstra, Broek, Buiskod & Plooi, 2011, p.42).

It is known that Solvency II is neutral according to the legal form, nature, scale and complexity of the insurance companies (CEA, 2007) consequently insurance mutuals will have difficulties to meet the terms of Solvency II.

Because smaller and medium-sized mutuals are often focused on one particular risk, cover one homogeneous group and have more difficulties in acquiring (risk) capital, compliance with the Solvency II rules can be more difficult for them and could have significant consequences, also finally resulting in their dissolution. (Grijpstra, Broek, Buiskod & Plooi, 2011, p.37).

One of the most mentioned reason for the difficulties that insurance mutuals with the Solvency II will face is the continuity requisite of insurance mutuals for extra capital resources.

This system might oblige mutuals to increase contributions from members, or force insurance mutuals to abandon mutualistic values and become a stock holding company, i.e. to embrace the demutualization process in order to gain additional funds,(Grijpstra, Broek, Buiskod & Plooi, 2011,p.43).

It will be hard for mutuals, with niche customers and limited global presence, to come across its requests (Best's Special Report, 2009).

Another important point is that the process of Consolidation is likely to improve companies' capability to answer the Solvency II requirements. But, while there is no European statute for mutual societies, as for other insurance players," *It is impossible for the mutual insurance sector to consolidate cross-border and grow stronger in a way which is coherent with mutual values* ", (AISAM & ACME, 2007 p.4).

The implementation of a European Mutual Society statute is crucial for mutual insurers in order to "play" under the same circumstances in the new solvency system.

According to Swiss Re's head of Client Management Germany, Karlheinz Render, reinsurance is a tool that can keep mutuals experiencing the Solvency II requirements to keep the benefits of their business form, (Swiss Re, n.d. par.1).

Related to the solvency II project, the Austrian large insurance mutuals share these opinions:

Acoording to Muki (retrieved from the Annual report 2013):

Solvency II stellt hohe Anforderungen an das Risikomanagementsystem von Versicherungen. Einerseits muss die Bedeckung des Eigenmittelerfordernisses durch Eigenmittel nach strengen Vorgaben ermittelt werden (Säule I), andererseits wird auch geregelt, wie das Risikomanagementsystem einer Versicherung aufgesetzt sein muss. Die Muki setzt diese Vorgaben zügig, ressourcenorientiert und nachhaltig um, so dass gewährleistet ist, dass die gesetzlichen Anforderungen sowohl von Solvency II selbst als auch der „Interimistischen Maßnahmen“ lückenlos erfüllt sind (Muki, 2014, unit 4/12).

The ÖBV on its annual report for the year 2013 explained:

Das Thema Solvency II hat mit der Festlegung eines Umsetzungsfahrplanes von Seiten der europäischen Versicherungsaufsicht EIOPA an neuer Dynamik gewonnen. Die ÖBV hat bereits 2013 daran gearbeitet, die Umsetzung der neuen Richtlinie zeitgerecht vorzubereiten. Im Fokus all dieser Maßnahmen steht das Ziel, die Position der ÖBV nachhaltig abzusichern und gestärkt in die Zukunft zu gehen. (ÖBV, 2014, p.5).

And finally, according to the Tiroler Versicherung insurance mutual association:

Die TIROLER befasst sich schon seit geraumer Zeit mit den zu erwartenden Anforderungen aus Solvency II. Im September 2012 wurde durch den Vorstand ein groß angelegtes Solvency II-Projekt gestartet, das von der KPMG Austria AG, Wien, begleitet wurde.

Bis zur Einführung von Solvency II sollen alle Anforderungen an die TIROLER termingerecht erfüllt werden. Auch wenn die Einführung nun voraussichtlich auf 2016 verschoben wird, bleibt das Ziel des Projektes weiterhin, bereits vor dem geplanten Einföhrungstermin den Solvency-II Aufgaben gerecht zu werden (Tiroler Versicherung, 2014, p.14).

In Austria there are no difficulties or highlighted critics from the side of these companies regarding the requirements that Solvency II will bring.

2.7 Insurance Mutual associations vs Joint –stock insurance companies

If we consider mutual societies in general, they have demonstrated that they are sustainable, productive and competitive formations that harmonize customer expectations and needs.

Since mutual societies are mostly important and related with the insurance sector, very interesting feature of the insurance industry is the co-occurrence of both mutual and joint stock companies. Mutual and joint stock insurers have concurred together in the insurance

market for over a hundred years although they basically differ according to management and ownership structure and (lastly very exposed) customer services.

In a mutual organization, the customers are the owners, while in a stock organization, the owners and customers are dissimilar. In the first form customers (owners) bear the risk and in the joint stock form the risk is shared between the owners and customers.

Typically, in the beginning stock and mutual insurers were equally represented, but now the industry is mainly composed of joint stock firms.

This dual presence in the insurance market has gained an increasing attention, focusing the emphasis on the comparison and differences they have when performing insurance.

The difference between mutual and joint stock insurance companies is discussed in the theory according to numerous criteria, I will present the most important conditions like the agency problem issue, efficiency also the population they serve, the risks they cover and the different channels they use to access capital.

In the context of agency problem issues, Mayers and Smith (1981, 1986, 1988, and 2005) argued that the owner-policyholder conflict is deeper in joint stock insurance companies and the owner-manager conflict is more dominant across mutual insurance companies.

Additionally, Smith and Stutzer (1990, 1995) established the concept that mutual organizations increased their importance in insurance markets for the reason that they are efficient at controlling information asymmetries. Also, Ligon and Thistle (2005) advanced a theoretical model presenting that small mutuals can provide advantages over conventional insurance in addressing problems of adverse selection.

More recently, is the evidence that “*mutuality acts as an effective control for information asymmetries in the market*” (Adams, Andersson, Yihui Jia & Lindmar, 2011, p. 1074).

Very dominant focus regarding mutual versus joint stock organizational form is the efficiency matter. In the literature are presented different comparative efficiency studies in different market segments and conditions.

The efficiency subject is related with the agency problem (discussed above). In that background, firstly, Mayers and Smith (1981) and Smith (1986) argued for equivalence on efficiency of mutual and stock organizations based on agency problem theories.

Observing the property casualty industry (Cummins, Weiss, & Zi, 1999; Cummins, Rubio-Misas & Zi, 2004; Jeng & Lai, 2005) report similar efficiency of mutual and stock insurers.

Different suggestion provide Leverty and Erhemjamts (2010), observing the life insurance industry structure during sample period, 1995 to 2004, they argue that *“stock insurers are more efficient in producing life insurance outputs and mutual insurers achieve significant improvements in efficiency after converting to the stock organizational structure”* (as cited in MacMinn & Ren, 2011 p.107).

Alternative way to examine the efficiency is to compare insurance formations after the mutualization or demutualization process.

For example, Mayers and Smith (1986) examined the mutualization of 30 life insurers (during 1840-1960) and argued that new mutualized insurance companies enhanced the efficiency in many aspects (such as, surplus progress, increment on assets, income, premium or turnover rate for managers). In contrast, opposite evidence (Jeng, Lai, & McNamara, 2007) examined U.S. demutualized life insurers (between 1980s to 1990s) and stated efficiency expansion after demutualization.

But, still there is no convincing evidence that either organizational form is more efficient than the other, additional research is needed in order to present a conclusive confirmation.

Besides the efficiency Grijpstra, Broek, Buiskod and Plooi (2011) provide a vast differences of mutual and stock insurers according to the population they serve, the risks they cover and the different channels they use to access capital.

Each insurance organizational structure covers different kinds of individuals or different types of risks (Doherty & Dionne, 1993) and homogeneity of risk is seen more in relation to mutual insurers, heterogeneity more in relation to stock-holding insurers (Ligon & Thistle, 2005).

Significant variance between stock and mutual insurers is the way risk capital is obtained. Stock companies first raise risk capital from investors (shareholders) and then sell insurance policies. Mutuals in contrast, raise their capital through premiums and only latter the risk capital is directly tied to selling insurance contracts (Grijpstra, Broek, Buiskod and Plooi, 2011).

Additionally, mutual insurers face higher costs for raising new capital than stock insurers.

Stock insurers have better access to capital, but mutuals are recognized for their policy holders-owners relationship, they can call their members for additional capital (2011).

The weakness of mutuals related with the capital access “oblige” them to find other manners and practices to increase their capital (for example by selling policies to more people, entering new markets or providing new products) but some of this directions face many legal and administrative obstacles (2011).

The Moody's Special Comment (Moody's Insurance, 2009) in the life insurance industry, expressed that in a severe business environment like that of 2008, the mutual life insurance companies compared with joint stock companies have demonstrated better robust creditworthiness. According to these research, viewed from the perspective of the mutual insurers relative to stock insurers, the main modifications between stock and mutual life insurers that affect their creditworthiness in this challenging environment are:

- Stronger capitalization
- Less risky business focus and product offerings
- Less financial/public disclosure and headline risk
- Diminished access to capital markets, but less dependence on it
- Greater alignment of owners and creditors/policyholders with longer term

Orientation (Moody's Insurance, 2009, p.1).

According to the same source most mutual companies have the organization and orientation that are highlighting them during periods of crisis, making them evidently intact from the challenging periods (Moody's Insurance, 2009, p.1).

Also, the research (AMICE & ICMIF, 2014) indicates that insurance mutuals are more "strong" than joint stock companies in times of crisis. This research tended to express that the increment of the market share of the insurance mutuals is larger than the market share increment of the total insurance industry.

Mutualism is promoted within the financial sector. It is generally accepted that economies benefit from different ownership structures and company forms. This diversity helps sectors, by being flexible, to adjust to changing market environments. The diversity in financial systems encourages economic growth, reduces poverty and different ownership structures provides more competitive and less risky financial market (Cuevas & Fisher, 2006).

Based on this call for diversification, the (Michie & Llewellyn, 2010) study argues that the mutualist idea should be further stimulated for three reasons:

- mutuals are less prone to pursue risky speculative activity;
- a mixed system produces a more stable financial sector in times of crisis; and

- a stronger mutual sector enhances competition.(as cited in Grijpstra, Broek, Buiskod and Plooi, 2011 p.65)

With respect to Austria, there is a scarce in information and research studies related to advantages and disadvantages of the mutual form of business compared to joint stock forms of companies offering insurance services.

The study (Ebner & Ubl, 2009), noticed that of specific importance from an economic perspective and financial stability analysis are insurance companies that trade as joint stock corporations.

Lastly, the attendance of mutual form in the insurance market is very important, acting in the best interest of its members they proved that are significant even wider.

AMICE (Association of Mutual Insurers and Insurance Cooperatives in Europe) outlined the general mutual insurance benefits as follows.

From mutual insurance companies can benefit policyholders (members), insurance markets, the economy and society (AMICE, n.d.).

Figure 2. The benefits of insurance mutuals

<p><i>...the members (policyholders)</i></p> <ul style="list-style-type: none"> • All surplus is exclusively used for the benefit of the members • No dividend is paid to outside shareholders • Members participate in the democratic governance 	<p><i>... the insurance markets</i></p> <ul style="list-style-type: none"> • The mutual business model competes with the shareholder-oriented model • Mutual insurers are innovative, they listen to needs of their members • They have long term business orientation and investment behavior
<p><i>...our society</i></p> <ul style="list-style-type: none"> • -Mutual insurers act in a socially responsible way • They are engaged in societal activities • They tend to be reliable long-term employers 	<p><i>... the economy</i></p> <ul style="list-style-type: none"> • Their long-term orientation provides stability to the financial sector • The diversity of the business model increases the resilience of the sector

Source: AMICE, n.d.

In progress, I tended to present a SWOT analyses table where are featured the strengths, weaknesses, opportunities, and threats of the mutual insurance companies. This is an own presented table and opinions are mostly based on the literature of Grijpstra, Broek, Buiskod and Plooi, 2011; Archambault, 2009; European Commission, 2003).

As strengths of this companies are qualified the principle of solidarity, as the main element that highlights their uniqueness, which incorporates also the inclusion of care and the social responsibility of the organization. It is known that policyholders (also clients) have an influence within the company, which has smaller debts in its capital structure and there is an evidence that these companies are more resilient in time of financial crisis.

The most important weakness is that these companies have limited access to external capital, also the Solvency II directive is expected to cause financial difficulties. The other limits are that little is written about the mutual sector and this companies are relatively unknown for the public.

Figure 3. The SWOT analysis of the Mutual Insurance Companies:

<u>Strengths:</u>	<u>Weaknesses:</u>
<ul style="list-style-type: none"> -the principles of solidarity -the inclusion of the care and social element - policyholders have an influence within the company - have smaller debts in their capital structure and are more resistant to the fin. crisis - quality of the mutual insurers “products” -present in niche markets, serving same groups with specific needs 	<ul style="list-style-type: none"> - the absence of a statute (national and European) -little is written about the mutual sector -limited access to external capital -the Solvency II directive is expected to cause financial difficulties. -the complex nature of the management of insurance mutuals

<p><u>Opportunities:</u></p> <ul style="list-style-type: none"> -merging and creating alliances with other mutuals across borders - the continuous development of the information and communications technology is changing the companies value chain, the management, the distribution channels and products itself 	<p><u>Threats:</u></p> <ul style="list-style-type: none"> -the process of demutualization threatens their existence -the financial requirements of Solvency II regime
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The absence of a statute (in national and European borders) inhibits the legal confidence to insurance mutuals and of course the composite nature of the management of insurance mutual companies. The European statute will afford a specific legal framework for mutuals to work across borders, by merging and creating alliances. This is recognized as very important opportunity of this sector. Also, mutuals will be stimulated by innovations, because the continuous development of the information and communications technology is changing the value chain, the management, the distribution channels and products of the companies.

The biggest threats are the process of demutualization (the legislative that favors this process), their survival and financial requirements of the Solvency II regime.

In the end of this subject, in order to repeat the importance of the insurance mutuals I want to close this section with the six factors that show why mutual insurers are good for Europe. They include the fact that mutuals develop a different business purpose, which is accompanied with customer trust and accountability, dedicated to the society and community, to reinforce the competition in the market, through business plurality and diversity in order to enrich economic resilience and sustainability (AMICE, 2014, p.13). With these factors, companies are able to focus on attracting new customers, providing new products and high quality customer service.

2.8 Insurance mutual associations and the financial crisis

The discourse about financial crisis is very interesting topic, since financial crises are not a new phenomenon in the economic branches and lessons learned from them are main starting points for “building” the future. The last financial crisis is known as one of the more “cruel” crisis after the 1930’s Great Depression.

The crisis started in the US and spread through financial and real economic channels to the rest of the world

Starting from 2007, the global recession and economic disorder have hurt the financial strength of firms around the world.

This crisis caused severe problems for financial institutions and very often governmental support was necessity for their survival.

In the beginning, in USA, the crisis expressed itself as an existed real estate bubble bust, mortgage subprime crunch, and critical liquidity shortage among financial institutions because of the practice of very rigid market conditions to overturn their debt. As a result, alarms over the solvency of financial institutions were alerting and the situation dramatically changed in 2008 when a major US investment bank, Lehman Brothers, collapsed (Norgen, 2010). Through the second half of 2008, this crisis expanded into a global credit crisis following the collapse of major global financial institutions.

The policy reaction was unexpected. “The Federal Reserve lowered the policy rate to close to zero, introduced massive liquidity measures and purchased bonds. The government launched two fiscal stimulus packages of nearly 1 trillion dollars” (Norgen, 2010, p.14). The target was to regenerate the confidence in the financial market.

Because of the close connections inside the financial system and also because of the common supply chains in the global markets the international spread of the crisis was very rapid.

Despite that many viewers believed that Europe would not be severely affected by the US financial market downturn, the financial crisis hit this continent in September 2008.

European banks that had invested deeply in the American mortgage market were affected severely. With the aim of saving some banks from failing, governments came to the rescue in many European countries (European Commission, 2014c).

“Access to capital was limited, the survival of many banks became uncertain and the equity markets tumbled. The real economy was severely affected “(Norgen, 2010, p.15).

Europe “embraced” the deepest recession of 2009, the bank troubles influenced governments, especially ones that couldn’t protect affected banks (European Commission, 2014).

In Europe from January -April (2009), 3374 firms went bankrupt , an increase of 23% compared with the same period of 2008,most exposed sectors were the construction, transport and restaurant sectors (Cedric, 2014).

The warning of the banking system was costing governments, on behalf of the period 2008-2011, 1.6 trillion euros, equivalent of 13 % of the EU’s annual GDP (European Commission, 2014).

Failures in the financial system, predominantly in the USA, were the main the problem for starting the financial crisis. However, some reasons also originated from macroeconomic policies and inadequate policy regulation that additionally threatened the financial system (Norgen, 2010, pg.17-30).

Generally, according to Norgen (2010) there are 3 main reasons that assisted for the financial crisis. Namely, there are: macroeconomic causes, financial market causes and policy implementation and regulatory failures.

Each reason is illustrated by concrete details as presented in the table below:

Table 3. The causes of the financial crisis

<p><u>Macroeconomic causes:</u></p> <p><i>Low inflation and low interest rates</i></p> <p><i>Higher risk taking</i></p> <p><i>Growing imbalances</i></p> <p><i>Failure to address the financial cycle</i></p>
<p><u>Financial market causes :</u></p> <p><i>Financial innovations increased complexity</i></p> <p><i>System-wide risks underestimated</i></p> <p><i>Inadequate risk management</i></p> <p><i>Credit rating agencies failed to evaluate risks</i></p> <p><i>Remuneration systems spurred risk taking</i></p>

Banks circumvented capital requirement regulations

Procyclical credit conditions

Policy implementation and regulatory failures:

Government policies lowered credit control

No one responsible for – or understood – system-wide risks

A lack of international harmonization and coordination

Supervisors did not understand risks or that banks by-passed capital requirements

Winding up procedures for banks

Governments guarantee the financial system

Source: adopted from the theory (Norgen, 2010, pg.17-30).

In the literature is also discussed the “contribution “of the insurance sector for the beginning of this crisis, i.e. the insurance sector as initiator of the crisis.

If we distinguish the insurance industry, different views exist about the role of the insurance sector in the background of the financial crisis.

If we refer to the opinion of “The Credit Crisis and the Insurance Industry: 10 Frequently Asked Questions” (The Geneva Association, Etudes et Dossiers No. 351), response to question 1: Have insurers contributed to the subprime and subsequent financial crisis? The answer advises that there is no evidence that insurance companies have assisted to the general concerns that the banking system is facing. The answer also refers that insurers have not initiated the subprime mortgages because they didn’t perform as main investors in mortgage based financial instruments. But in opposite, the insurance business players demonstrated flexibility in front of hostile market situations, they tend to act as long term investors trying to break the market instability. Consequently, can be said that the insurance sector acted as a stabilizing factor next to the unpleasant financial system (as cited in Schich, 2009, p.5).

The opposite is expressed by the Chief Executive of the US-based insurance company Allstate, he argued that it was only necessary an insurance product that assisted the risk to “destroy” the global economy.” *It should be no surprise that a big insurer like AIG (American Insurance Group) would be a major issuer of credit default swap. What is surprising is the claim that insurance did not contribute to the recent market failures, and therefore insurers*

don't need to consider how to prevent them from happening again “(as cited in Schich, 2009, p.5).

Despite this opinions fact is that the financial crises events “attacked” the businesses very hard, regardless of the intervention of central banks and governments.

All economic branches, including also the insurance business, were affected by the financial crisis.

There is a strong relationship between the banking and insurance sector, in many cases they offer combined products, insurance companies are using bank sales channels (for example a mortgage offered by a bank is often, supplemented by a life insurance policy). But there is a discussion, inside the insurance market, which sections are starkly affected by the recession. The non-life insurance segment is one of the least affected markets compared to life insurance segment where the influence of the financial crisis has been relatively important (Grijpstra, Broek, Buiskod & Plooi, 2011, p.60).

According to Schich (2009) the financial crisis is principally a banking crisis, and the wealth of the insurance industry does not seem to be in danger. However, insurance companies have been affected in different ways, which are sometimes very opposed.

Some insurers have been more directly exposed to credit and market risks (like US mortgage and financial guarantee insurance companies and some insurance groups). “...*related to the financial health of insurance sectors and companies, the crisis has clearly demonstrated that protection against systemic risks should also include monitoring and mitigating risks in the insurance sectors and companies*“(Schich, 2009, p.2).

As mentioned above, some insurance companies are examples of “strong” exposures to credit and market risks, they are:

- ***Mortgage insurers***, were famous in USA because they have been at the peak of the crisis. The business strength of these companies generally depend on real estate market, and are not predictable to recover quickly.
- ***Life insurance companies***, also principally in the USA, experienced important market valuation stresses, because of the investment losses
- ***Financial guarantee insurance companies***, these companies suffered ***because*** of the market pricing pressures, so they experienced under rating and lost their rating status, very essential for this business type.

- The *large insurance–dominated financial groups*, it is known the very close relationship of bank and insurance activities, therefore some large insurance financial groups were strongly influenced through their institutional links to banks or their investment bank transactions. Perhaps, some large insurance group failed because of the losses experienced through the financial product units (Schich, 2009, p.9).

The financial crisis has an “highlighted” influence on the insurance industry, mainly on the investment portfolios, financial market valuations and the overall performance decline of the activity of insurance companies, (Schich,2009,p.1). But on the other hand, insurance enterprises are important investors in financial markets, they (mainly life insurance companies), are organizations with longer-term liabilities (rather than commercial and investment banks) and they have ability to implement long term investment strategies. They didn’t directly depend on falling markets, that’s why they are performing as stabilizing factor during the crisis (2009).

On the other side, if we look at the problem from another viewpoint, after the disorder years it is easier to understand that the financial crisis elevated of the banking sector, was pervasive and entrenched the insurance sector, but this crisis has affected insurers to a less important extent. The insurance sector entered the crisis from a position of strength, with high solvency ratios, it was in a better position to face the crisis but still there was a deterioration on solvency positions and reduction of profits and this threatened the future solvency of insurers and moreover steps have to be taken to ensure the future sustainability of the insurers. Here the key was solvency II regulation (CEIOPS, 2009).

After discussing the facing of this insurance organizations with the financial crisis, raises the question, how affected is the social economy, especially the insurance mutuals from this financial crisis, which is one core problem of this thesis.

If we consider the Social Economy and its relationship with the crisis, we can see a different relation. Here important is the fact that the institutions of the third sector are not directly related with the existed global financial crisis nor are responsible for that, as response they are not “grieved” as strongly as other financial institutions, but they sustained performing healthy balance sheets and continued to fulfil their tasks (CIERIC, 2012, p.87).

Finally, in the current financial recession the Social Economy has proved its ability for social innovation and for answering to social needs by deploying special forms of solidarity funding, such as ethical banking or social currencies, such example is the microcredit banks developed by the Bangladeshi economist Mohammed Yunus (CIERIC,2012).

If we reflect, mutuals as part of the social economy and their relationship with the financial crisis, there is evidence that, compared to stock holding insurance companies, mutuals active on the life insurance market show better creditworthiness in times of crisis (Moody's Insurance, 2009). This rating institution (Moody's) expressed that the main differences between joint stock and mutual life insurers that affect their creditworthiness during the crisis are:

- The fact that most of the mutual companies have enhanced quality capital, because they normally have smaller amounts of debt in their passive side of their balance sheets, they can easily survive financial tremors thank to their stronger capitalization,
- The business focus is to offer less risky products,
- The fact that this sort of companies are not listed on the stock exchange market tells that they are less prone to public disclosure and rare subject of head-line stories and of adverse publicity, which can protect the image of the company.
- The point that mutuals have weakened access to capital markets tells that they are not heavily reliant on it,
- They possess long term orientation approach between owners and policyholders (as cited in Grijpstra, Broek, Buiskod & Plooi, 2011, pg.63-64)

Additionally, other institutions, (A.M. Best, 2010) noticed that insurance mutuals are handling generally well beside the economic and financial crisis. The evidence specifies data on cooperatives, friendly societies, and non-profit companies during the period of time 2008 - 2010 and stated that mutuals have presented relative stability compared to other type insurers.

This attainment appears to be as a merit of the lack of pressure to return capital to stakeholders and customer loyalty.

The same report indicates that mutual insurance companies benefited from the financial crisis, generally by emerging a stronger position, but specifies that any benefit over conventional insurers may be short-term oriented as economies come to an improvement.

Finally, an extensive and serious study about insurance mutuals and their operation during this financial turbulence presents the research of the ICMIF (International Cooperative and Mutual Insurance Federation) ,this organization is publishing a series of Market Insights reports, which are based on growth trends of the mutual and cooperative insurers since the start of the global financial crisis in 2007, focusing on the largest global insurance markets: US, Asian and the insurance market of Europe.

Lastly, the AMICE's and ICMIF study called "The European Market Share Held by Mutual and Cooperative Insurers" published in May 2014,quantified again the mutual insurance sector growth , but it should be emphasized the fact that this study also covers the cooperative insurance companies.

According to this study, mutual insurers (in global terms) from 2007 to 2012, increased their premium income 27%, while the total insurance market only increased by 11.8% during the same period. As a result, the global market share of the mutual/cooperative sector grew from 23.4% in 2007 to 26.7% in 2012, with an increment of 3, 3 %, (AMICE & ICMIF, 2014).

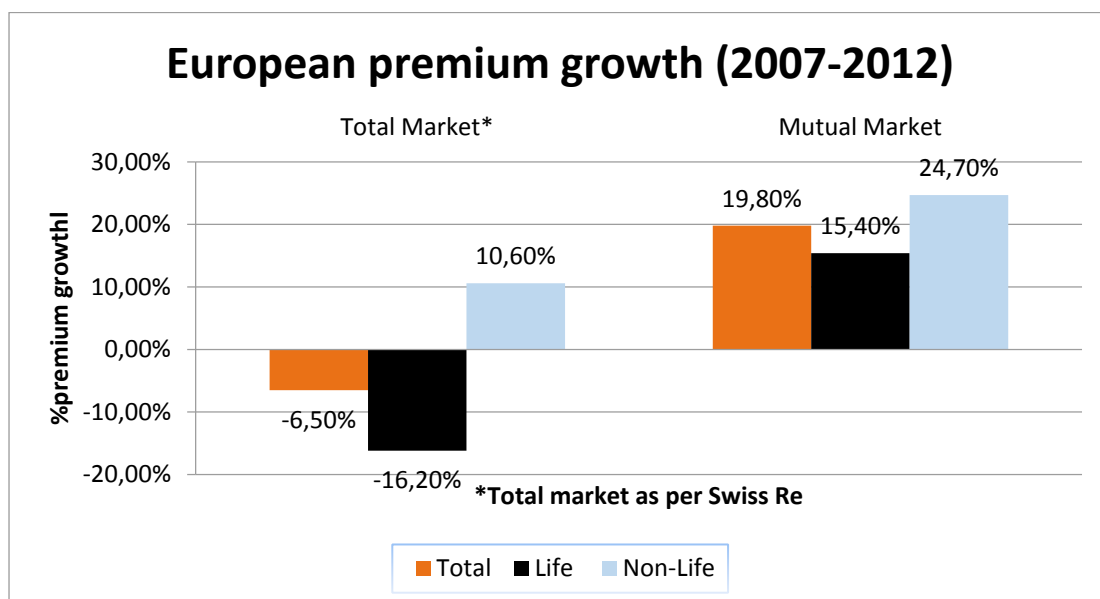
The European mutual and cooperative insurance sector reflected also positive premium growth and an increment in the mutual/cooperative market share from 22.1% to 28.4% both for the same period 2007-2012 (2014). Since 2007 the mutual (and cooperative) insurers outperformed the rest of industry (2014).

In the Fig.4 we can see the development trend of the total insurance market and the mutual insurance market in Europe.

Since the start of the global financial crisis European premium volumes decreased by 6.5% in total, this number is positive for the non- life insurance sector, but followed by a larger decrease of the premiums of the life insurance sector.

Contrary to this, the European mutual and cooperative insurance sector verified an overall premium growth of near 20% since 2007 (see Figure1) “making it the fastest-growing part of the regional industry since the crisis” (AMICE & ICMIF, 2014, p.2). There is an increment in two sectors (life and non-life) for the mutual and cooperative insurers (period 2007-2012).

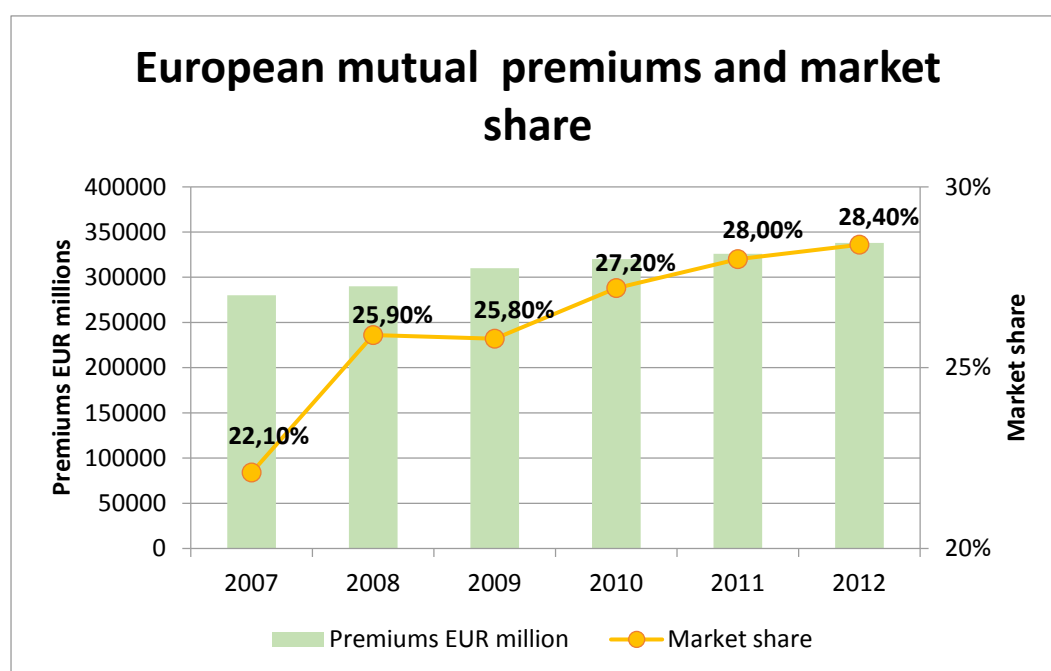
Figure 4. European premium growth (2007-2012)



Source: AMICE & ICMIF, 2014, fig.1

If we consider the premium volume, this (mutual) sector realized high aggregate insurance premium volumes in 2012, 338 billion €, and the total regional market share was growing from 22.1% in 2007 to 28.4% in 2012 (see Figure 5). The difference of the increment on the market share since 2007 is 6,3 %.

Figure 5. European mutual premiums and market share

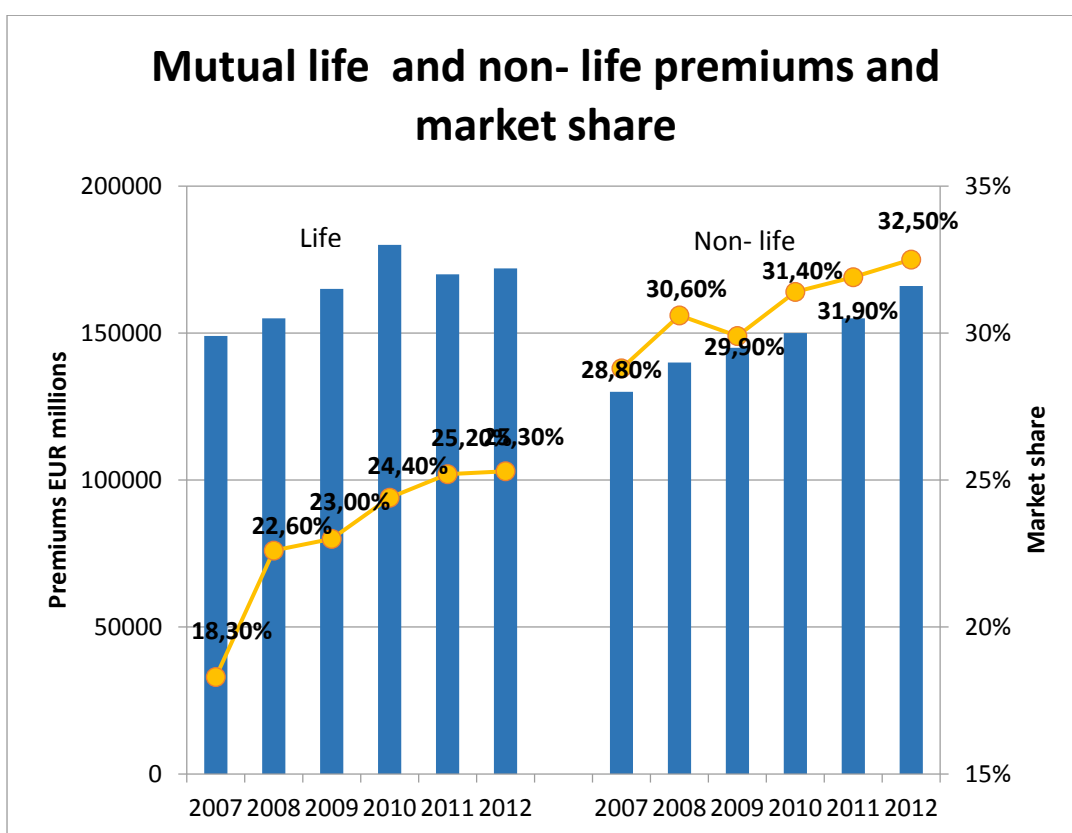


Source: AMICE & ICMIF, 2014, fig.2

The ultimate results from the European mutual and cooperative sector in 2012 marked 338.2 billion € in premium income, 28.4% share of the total regional market, 2.37 trillion € in total assets, 370,000 people employed and over 330 million member/policyholders served (2014).

This results were for the insurance industry in total, and moreover, in particular for the mutual (and cooperative) sector. If this outcome is distributed on the life and non-life insurance businesses, the picture is presented on the next graph.

Figure 6. The mutual premiums and the market share in European countries



Source: AMICE & ICMIF, 2014, fig.4

The overall decrease of the European insurance market since the crisis is firstly because of the significant decline in life premium volumes, with a 16% drop since 2007. The European premium levels improved somewhat in 2012.

If we refer the European mutual life sector, it reverted to positive growth in 2012, with an increase of 2% in premium volumes from the previous year 2011. “The sector wrote EUR 172 billion of premiums in 2012, contributing to 51% of the total mutual business in the region” (AMICE & ICMIF, 2014, p.4).

The “life” mutual market share increased from 18.3% in 2007 to 25.3% in 2012 (see Figure 4), with a difference of 7%.

On the other side, the non-life industry has realized better stability than the life sector since the crisis, with a 10.6% increase in volumes for the period 2007 -2012.

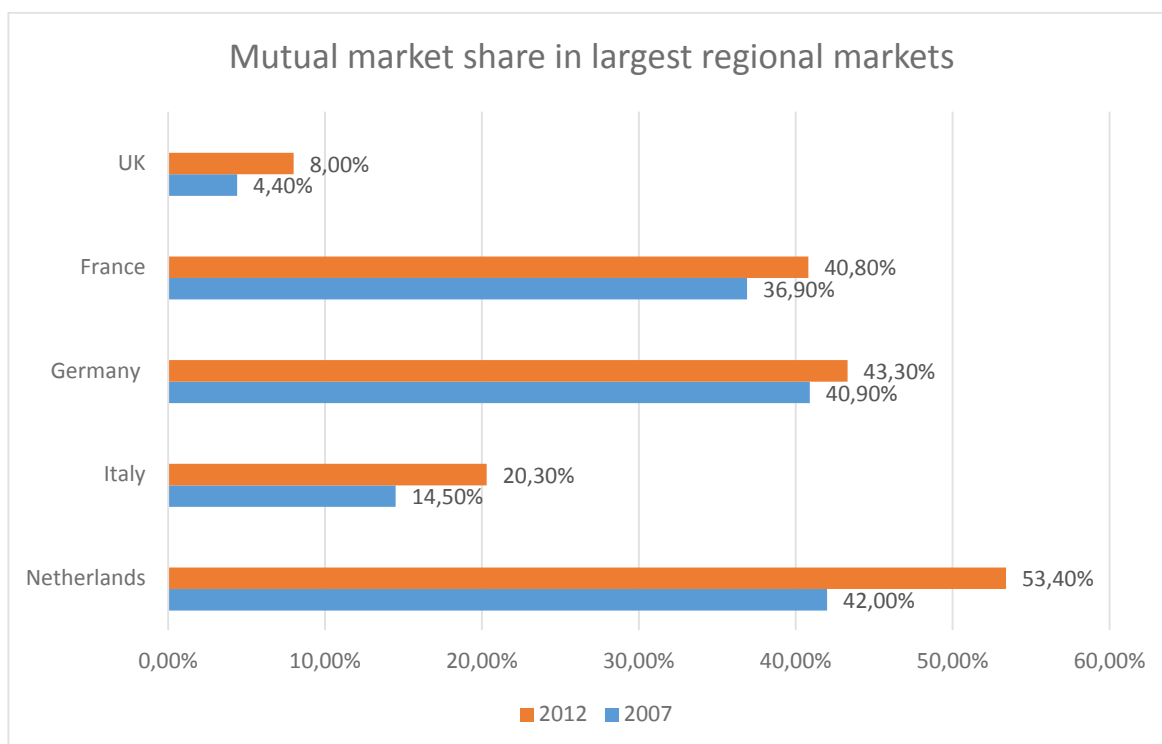
“In 2012, non-life business volumes increased by 3.9%, the strongest annual growth since the onset of the crisis” (AMICE & ICMIF, 2014, p.4).

Total mutual growth since 2007 was more highlighted by the non-life sector, *“as premiums increased by a quarter from pre-crisis levels “(2014, p.4).*

The mutual market share for the non-life insurance industry grew from 28,8% in 2007 reaching 32.5% in 2012, with a difference of 3,7 %.

Finally, from this study it can be presented the information about the mutual market share in the largest Europeans markets and the increasing shares for the period 2007-2012. From the figure we can see that the increasing shares in Netherlands (11,4%) ,Italy (5,8%)Germany (2,4)% and France with (3,9%), UK (3,7%).

Figure 7. The largest mutual market share markets in Europe



Source: AMICE & ICMIF, 2014, fig.8

However, despite interesting observations suggesting that mutual undertakings are more resilient to the financial crisis, there is not any empirical evidence that is based on solid,

longitudinal studies. If we refer Austria, there is not any special study related to the performance of insurance mutuals during the financial crisis. Also no evidence found for any business or university study that considers the insurance mutual sector and their operation during the financial crisis.

The AMICE and ICMIF studies provide also information about the Austrian mutual market share, but the same is very contradictory, referring very high percentage of the insurance mutual market. But here should be mentioned the fact that these studies considered wider definition for the mutual sector. This definition also includes mutual or cooperative insurers that are as well controlled and influenced by their clients then again are organized in a manner that they are not controlled by outside capital interests (AMICE, 2012). These characteristics are also common for some other insurers, although their legal form is that of a joint stock company.

This inclusion has very important effects for the Austrian mutual market share, the fact that two very strong Austrian companies (with very high market share) fall under the wider definition as applied in this study.

The outcomes for the “pure” Austrian mutual market (considering only large mutual associations) will be reflected on the next part of the thesis.

3. The insurance mutual market in Austria

3.1 Austrian insurance market in general

Next I will reflect some general data regarding the insurance industry in Austria, this general overview will enable later to implicit the insurance mutual associations' position in the Austrian insurance market and their operation during the financial crisis.

Very important are a number of different sources such as the Financial Market Authority reports or the reports of the Austrian Insurance Association, annual reports of insurance mutual companies, but also books and articles that are articulated in the text in order to fulfill the objective of this thesis etc.

On one hand, the lack of reliable and comprehensive statistics which is exceptional for insurance mutuals and studies that concerns insurance mutuals and their role during the financial crisis limits the possibilities to outline an accurate summary of the place that insurance mutuals share in Austria. But, the above-mentioned sources provide general information about the general insurance sector, where is also included the information about all six insurance mutuals that operate in Austria. "Combining" these data enabled to reach interpretations about the (large) mutual sector of Austria.

Firstly I will provide some general information about the insurance industry in Austria.

Austria's insurance industry employs 26.124 persons (VVO, 2014, p.107) and its undertakings are between the largest investors, employers and taxpayers in the country. Activities of this sector (for instance old-age provisions, health protection, security for property and business activities, safety in traffic etc.) have a significant impact on economic, political and social life. The Austrian insurance market is a stable, mature market that started to record again moderate growth in premiums, the total premiums in 2013 are about 2.0% greater if compared with the premiums of the 2012 (VVO, 2013).

Following the slight decrease in premiums recorded during 2011 and 2012, the figures were positive again in the 2013 financial year, this can be shown in the table below:

Table 4. Key Figures for 2013

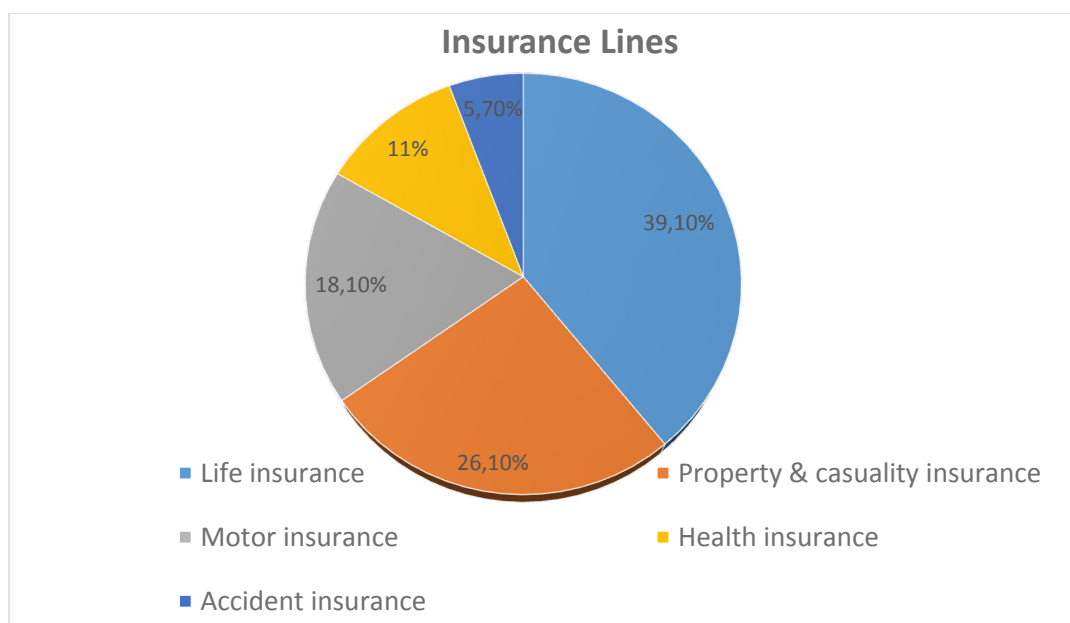
Premiums	year 2013
Premiums in € bn	16.616
Life insurance	6.499
Health insurance	1.821
Loss and damage insurance	8.296
Motor third party liability insurance	1.709
Change %	2,0
Life insurance -0,3	-0,3
Health insurance	3,8
Loss and damage insurance Loss and damage insurance	3,4
- Motor third party liability insurance	0,6

Source: VVO, 2014, p. 5

The rise in premiums is due to increases in the health and non-life/accident insurance sector although there was a light decrease in the life insurance sector.

The insurance lines for the financial year 2013 were distributed as follows:

Figure 8. The insurance lines for the year 2013



Source: VVO, 2014, p. 5

The market is dominated by composite insurers which operate in more than just one insurance lines. Insurance institutions can be organized as stock companies or as mutual insurance associations.

3.2 The number of insurance mutual associations vs. joint stock insurance companies

The number of both institutions were very important since their coexistence.

Once the briefly history of creation and further development of insurance mutual associations is explained, to understand better their operation in Austria its necessary to present an overview of the number of mutual insurance associations and joint stock insurance companies over the time.

Firstly, in Austria the mutual form as well as the joint stock form for insurance companies had the same significance. For instance, during 1880-1916, in the life sector insurance, the number of insurance mutuals and insurance joint stock companies was in equivalence, started with 11 life insurance mutuals and 11 life insurance joint stock companies in the year 1880, but, this equivalence has recently faded and until 1916 this number increased 23 for joint stock companies and 20 for insurance mutuals (Roloff 1988, p. 513).

On the following table it is presented the number of mutual associations against the number of joint stock insurance companies in the life insurance sector, the data is based on the period from 1880 to 1916.

Table 5. The number of insurance mutual associations vs. joint stock insurance companies in the life insurance sector for the period (1880-1916)

Year	Joint stock insurance companies	Insurance mutual assoc.
1880	11	11
1885	10	11
1890	11	11
1895	13	12
1900	15	14
1905	16	17
1910	16	18
1911	17	19
1912	20	19

1913	22	20
1914	22	20
1915	23	20
1916	23	20

Source: Rolloff, 1988, p. 513

More currently, in the two tables below, it is presented the number of insurance undertakings in the last 15 years. The data comes from FMA annual reports.

From the tables we can see that from the year 1999 the total number of insurance undertakings is declining. The number of insurance companies has fallen by 21, but the number of insurance mutuals is very stable, the last change is in 2004 when a new large mutual insurance association is created.

Table 6. Legal forms of domestic insurance undertakings (1999-2006)

	1999	2000	2001	2002	2003	2004	2005	2006
Large mutual assoc.	5	5	5	5	5	6	6	6
Small mutual assoc.	47	46	45	43	42	40	40	40
Joint Stock comp.	52	51	50	48	47	46	46	46
Total	121	120	121	116	114	112	112	112

Source: Holzer & Stickler, 2011, p. 11.

Table 7. Legal forms of domestic insurance undertakings for the time period (2007–2013)

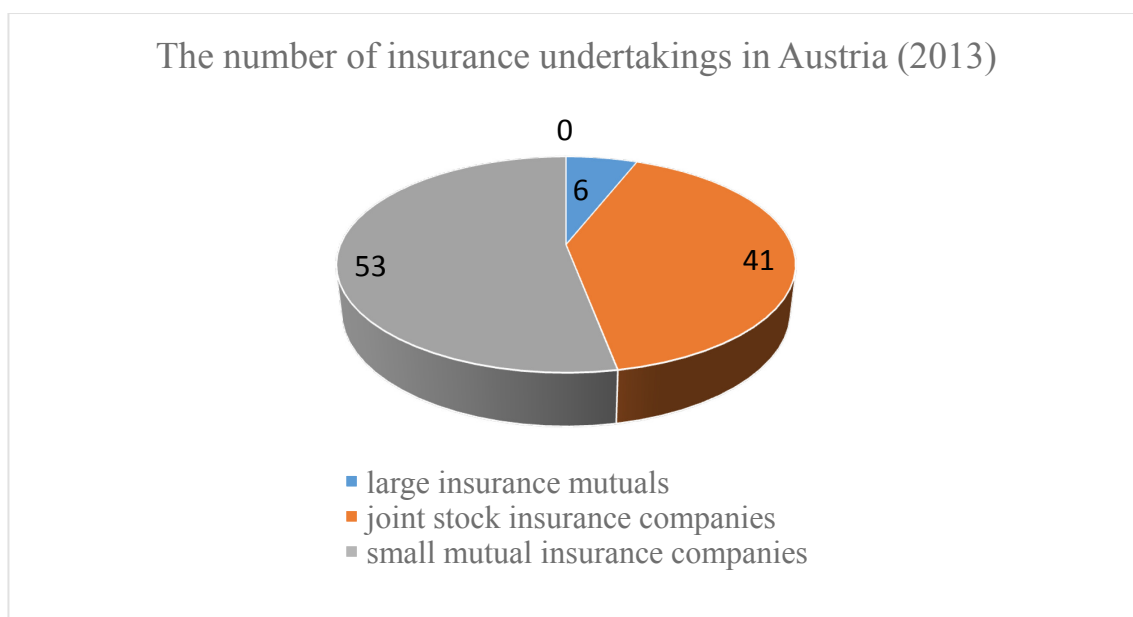
	2007	2008	2009	2010	2011	2012	2013
Large mutual	6	6	6	6	6	6	6

assoc.							
Small mutual assoc.	40	55	56	54	53	53	53
Joint Stock comp.	46	44	44	45	46	42	41
Total	106	105	106	105	105	101	100

Source: FMA, 2008, 2009, 2010, 2011b, 2012, 2013, 2014b

At the end of the year 2013, 100 Austrian insurance undertakings had the FMA license and were subject to continued supervision by the same authority, the number of insurance companies has dropped by 21 since the year 2000 (FMA, 2013, p.91).

Figure 9. The number of insurance companies in Austria for the year 2013



Source: self-presentation based on the data of FMA, 2014b, p. 91

The number of insurance mutual establishments is reduced, there are only 6 (large) insurance mutuals.

Also there are and six insurance mutuals, who transferred their entire insurance operation via universal succession in a joint stock company and are shareholders of the insurance joint stock company (where the insurance mutual now has the legal form of a private foundation) they are referred as insurance holding associations:

1. Austria Versicherungsverein auf Gegenseitigkeit Privatstiftung
2. Collegialität Versicherungsverein auf Gegenseitigkeit
3. GRAWE- Vermögensverwaltung
4. Merkur Wechselseitige Versicherungsanstalt Vermögensverwaltung
5. Oberösterreichische Wechselseitige Versicherungsanstalt Vermögensverwaltung
6. Wiener Städtische Wechselseitige Versicherungsanstalt Vermögensverwaltung (Korinek, 2008, p. 156).

3.3 ISA changes that influence the number of mutual insurance associations

Supplementary to the “change” of the number of insurance mutual association and their market participation very important point is how the Insurance Supervision Act (VAG) regulates the change of the legal form of Austrian insurance mutual associations.

The VAG, before the amendment of 1991 had two instruments to change the legal form of the mutual insurance associations, they are:

The asset transfer (Art 60) and the transformation into a joint stock company (Art 61).

But these given options don’t establish a valid basis for the desired structural improvements and they don’t provide significant economic importance.

In 1991 with a new amendment was developed the aim to facilitate the shift of insurance mutuals into stock insurance companies, without having to first liquidate. The justification was that the mutual insurers can join together for market concentration and solvency reasons.

“The provisions about transferring all insurance activities to a subsidiary joint stock company (Art 61a-61c) provide the opportunity to take in external capital for the subsidiary

without necessarily losing control of the activities of the subsidiary” (Broek, Buiskool, Vennekens & Van der Horst, 2012, p.18).

This model was developed in Austria with the purpose of strengthening the sector and intense financing and therefore the growth of insurance mutuals.

It was trying to be provided a sign of affirmation of reciprocity concept practicing the tools of modern corporate law while maintaining the traditional mutual structure.

If until 1991 the number of insurance mutuals was reduced drastically, this was done due to the possibilities of asset transfer and transformation of mutuals into joint stock companies, but from 1991 there was a reinforcement of reciprocity attributes thanks to the Art. 61(a-c).

But, the literature provides opinions that even that the Austrian model is used to protect elements of reciprocity, it conveyed again to a legal abandonment of the mutuality form, but, under the influence of this amendment, this was done more slowly and gradually, and this form of insurance has been stuck in the past. (Lehner, 2007, p.190).

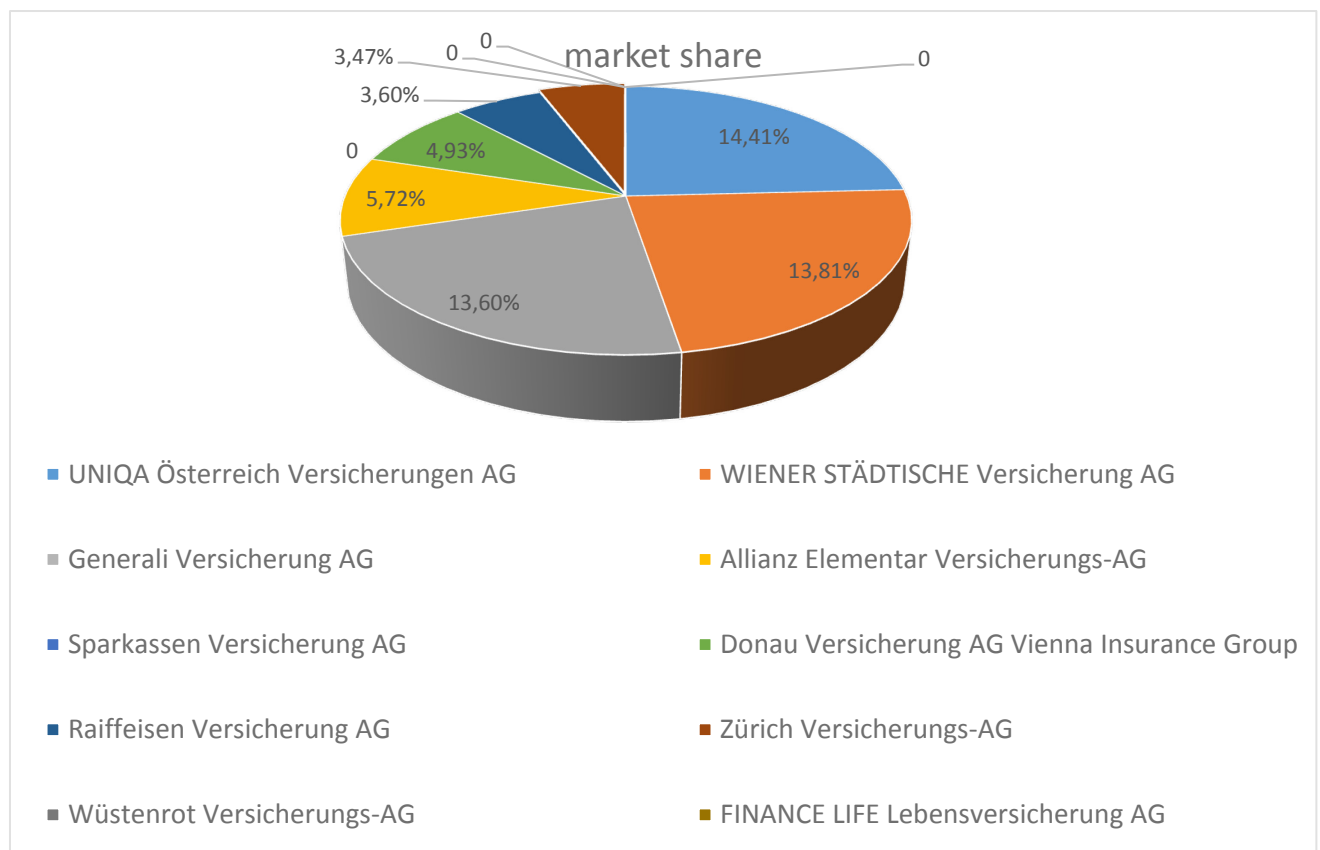
“A vast 95 % (in terms of market weight) majority of the previously mutual insurance societies have nowadays transformed into joint stock companies and can no longer be classified as insurance mutuals” (Lechner,2007,p.123).

3.4 The market share of insurance companies

Once we know the variation of their number over the year's key point is the market share. From the numbers of insurance undertakings (Fig.4.) we can see that the small mutual associations include the largest number (53 companies) but they share the smallest market share, most of the market share belong to the joint stock companies.

If we consider the market share of insurance undertakings for the year 2013, we can understand that the first 10 large insurance companies that have the largest market share are all organized as joint stock companies , and include 71,39 % of the market share. The figure bellow explains their involvement:

Figure 10. The market share of the 10 largest insurance companies in Austria



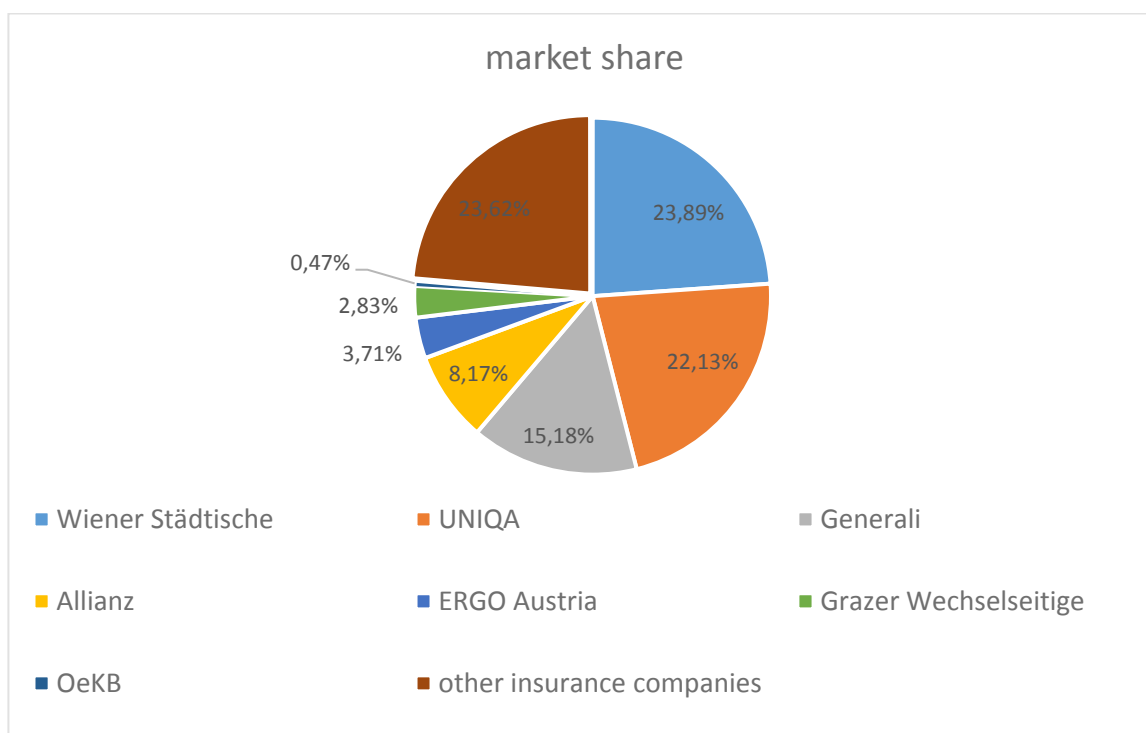
Source: adjusted from VVO, 2014, p. 98

The greatest part of the insurance companies are assembled in insurance groups, they represent about 76, 38 % of the total market share and other insurance companies (that aren't part of groups) with 23, 62 %, this is for the year 2013. (VVO, 2014, p.100).

Six insurance corporations are recognized, two of them are Austrians (Vienna insurance Group - Wiener Städtische and Uniqa) and three foreign corporations (Allianz, Generali and ERGO), (Holzer & Stickler, 2011, p.50).

In the last ten years there isn't any dramatically change in the market share of insurance companies (Holzer & Stickler, 2011 p.50).

Figure 11. The market share of insurance groups



Source: VVO, 2014 p. 100

Small part of the insurance industry represent (large) insurance mutual associations. These companies signify only 3, 3 % of the Austrian insurance market share.

These companies are important part of the Austrian third sector, for the number of members and employees that they have.

Table 8. The number of members and employees of large insurance mutual associations

	Members (2010)	Employees (2010)
Österreichische Beamtenversicherung (ÖBV)	200.000 **	702
Tiroler Versicherung	100.000*	260
Österreichische Hagelversicherung	64.000	61
Voralberger Landes-	88.072	169

Versicherung (VLV)		
Kärntner Landes Versicherung	100.000	169
MuKi	235.000	55
Total	787.072	1.416

Source: (Brazda, 2013) (unpublished document)

() rounded (**) estimated*

3.5 The insurance mutual associations in Austria

Actually are operating 6 large insurance mutual associations. The 6 insurance mutual associations are:

1. Tiroler Landesversicherung

It is one of the oldest mutual associations in Austria, it was founded in 1825 as Tiroler and Voralberger insurance institution against fire damage. Through continuous development over the years from fire insurance office it becomes a modern insurance company, “*Today is the Tiroler as strong as ever*” (Tiroler Versicherung, n.d.). From 1964 it characterized with continuous expand of the offer, for instance, the insurance against burglary and housebreaking, legal expenses insurance, accident and motor vehicle insurance, electrical equipment insurance and finally after a long training the line of life insurance entered in this business in 1982. It is very important for this company the local element. Established for the benefit of the country it remains the only insurance company in Tirol, which is 100% owned by its population (Tiroler Versicherung, n.d.).

2. Die Österreichische Beamtenversicherung

Since its founding in 1895 this independent company insured the employees of the public sector, but its contracts can also be used from any other non-public persons as the company is an open insurance mutual association active in the life and accident insurance sector. (ÖBV, n.d.).

3. Kärntner Landesversicherung

Founded in 1899 as Carinthian local fire damage insurance fund with the aim to support the Carinthians, who had lost by fire their livelihoods. For over 110 years it is a reliable partner active in all security matters. Over the time it will advance the offer based on private line, company, agricultural and forestry insurance (Kärntner Landesversicherung, n.d.).

4. Vorarlberger Landesversicherung

Since 1920 it was connected with providing insurance for the population of Vorarlberg, firstly mainly active in the fire and household insurance and today as insurance partner in all insurance lines.(n.d.).

5. Österreichische Hagelversicherung

The Austrian hail insurance is the special insurer for the agricultural sector. Founded in 1947 as mutual insurance association that insured the agricultural production, harvests against hail, frost, storm, drought, flood, sprouted or animal pests, etc.

In the meantime the company is involved on the insurance of deaths and stillbirths in cattle, as well as deaths in horses, being Austria's largest animal insurer (Hagelversicherung, n.d.).

6. Muki Versicherungsverein auf Gegenseitigkeit- is the youngest insurance mutual association in Austria. In 1988 founded the association “Mutter und Kind im Krankenhaus” (Child and mother in the hospital) in order to facilitate the overnight of parents that accompany their hospitalized children.

In 2004 this association has decided to found the insurance mutual association, Muki, without external (debt) financing, this company is the first insurance mutual association since the end of the war in Austria. (Muki, n.d.).

Muki expands its activity becoming active in various sectors of insurance, also indicating an increase in market share

From insurance mutual associations the largest is the Österreichische Beamtenversicherung with a market share of 1,03 % in 2013, (VVO, 2014).

The market share of these insurance mutual associations, is presented in the Tab.9.

Table 9. The market share of mutual insurance associations for the time period (2009-2013)

	2012	2013
Österreichische Beamtenversicherung (ÖBV)	0,99%	1,03%
Tiroler Versicherung	0,56%	0,64%
Österreichische Hagelversicherung	0,54%	0,57%
Voralberger Landes-Versicherung (VLV)	0,47%	0,47%
Kärntner Landes Versicherung	0,33%	0,33%
MuKi.	0,21%	0,26%

Source: VVO, 2014, p. 98

A division of the market share according to the insurance sectors will provide more real picture of their participation.

In the life insurance sector the market share looks:

Table 10. The market share of insurance mutual associations in the life insurance sector:

	2012	2013
Österreichische Beamtenversicherung	2,19%	2,32%
Tiroler Versicherung	-	0,19%
Voralberger Landes-Versicherung	0,31%	0,32%

Kärntner Landes Versicherung	0,13%	0,13%
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Source: adjusted from VVO, 2014 p.113

For the health insurance division the market share is:

Table 11. The market share of insurance mutual associations in the health insurance sector

	2012	2013
Muki	0,75 %	0,77%

Source: adjusted from VVO.2014, p. 116

In the health insurance sector it is involved only one mutual association, Muki with market share, 0, 77 % in this field

Table 12. The market share of insurance mutual associations for the accident insurance sector:

	2012	2013
Österreichische Beamtenversicherung	2,14 %	2,13%
Tiroler Versicherung	0,44%	0,43%
Voralberger Landes- Versicherung	0,56%	0,56%
Kärntner Landes Versicherung	0,33%	0,34%
MuKi	0,31%	0,37%

Source: adjusted from VVO, 2014.

Table 13. The market share of insurance mutual associations for the property & causality insurance sector

	2012	2013
Tiroler Versicherung	1,22 %	1,21%
Österreichische Hagelversicherung	1,23%	1,28%
Voralberger Landes-Versicherung (VLV)	0,71%	0,70%
Kärntner Landes Versicherung	0,60%	0,59%
MuKi	0,26%	0,36%

Source: adjusted from VVO, 2014, p. 126

Table 14. The market share of insurance mutual associations for the motor insurance sector

	2012	2013
Tiroler Versicherung	0,67%	0,68%
Voralberger Landes-Versicherung (VLV)	0,48%	0,48%
Kärntner Landes Versicherung	0,55%	0,54 %
MuKi.	0,57%	0,78%

Source: adjusted from VVO, 2014, p. 129

3.6 Austrian insurance mutual associations during the financial crisis

The financial crisis that occupied the banking sector swept many sectors of the economy in many countries of the world, as well as the insurance sector. The question is how this financial crisis influenced the insurance industry in Austria; and the most important issue for this thesis, the impact of the crisis on the Austrian insurance mutuals, the stability and the change of the market share, of the premiums levels, of the profitability indicators etc. The answers to these questions are the main target of this subtopic.

Regardless of the worldwide financial crisis the Austrian insurance industry demonstrated to be stable part of the economy. The Austrian regulatory and supervisory regime for insurers performed adequately (IMF, 2013, p. 23).

Regarding the insurance industry in total, declining premiums on the life insurance sector were covered by rising premiums on non-life business.

Heinz Schuster, CEO of S Insurance in a large Format (weekly finance and business magazine) Interview (for the 2013 financial year, the pension trends and priorities for 2014) answered the question:

Seit der Finanzkrise 2008 haben Banken und Versicherungen massiv Vertrauen eingebüßt. Welche Maßnahmen setzen Sie, um dem entgegenzuwirken?

Es ist sicherlich richtig, dass das Image von Finanzdienstleistern im Zuge der Finanz- und Wirtschaftskrise Schaden genommen hat. Die Versicherungen, speziell in Österreich, haben sich jedoch wiederholt als Fels in der Brandung erwiesen. Bis heute musste keine einzige Versicherungsgesellschaft in Österreich finanzielle Mittel vom Staat in Anspruch nehmen. Im Gegenteil: Die österreichische Versicherungswirtschaft steht auf einem soliden Fundament und gilt als Musterschüler (Schuster, 2013).

If we refer insurance mutuals and the financial turmoil, once more I will mention that in Austria there is a lack of serious study that concerns insurance mutual associations and their role during the financial crisis.

It is very difficult to achieve results and “build” real conclusions when there are not available general data for the insurance mutual sector.

But as in our case, there are only a few number of insurance mutual companies, it hasn't been difficult to collect data for each company in order to obtain general data for the total mutual sector. Some data has already been output of the companies' balance sheets, for example the amount of premiums for particular years. But in some cases there is no available data, or available balance sheet for a company, such as for the insurance mutual company Österreichische Hagelversicherung.

On the other hand, there is no information about the market share of the Austrian insurance mutual associations, to notice the general market share of the mutual sector, once is determined the participation of the market share of each large mutual company in the market and their sum provided the general data for mutual sector.

Despite this complications it was arranged to present the desired “picture” of the Austrian mutual sector and the operation during the financial crisis.

As was exemplified by the AMICE&ICMIF study, the market share is a very relevant indicator to perceive the progress of Mutual Insurance Associations during these years of turbulences(in or case, 2007-2013).

Thus, the following table illustrates the market share of the six Austrian insurance mutual associations for the period 2007-2013.

In general, all insurance mutual associations, in the early 2007 owned 2.82% of the market while at the end of 2013, the result is 3.3%, with an increase of 0.48% (the percentages are calculated from tables that VVO annual reports present for the market share of insurance companies, in these tables is also available the market share of each large insurance mutual association, their sum presents the total market share for the mutual sector).

If this number of the Austrian mutual market share increment (0.48%) is compared with that of the AMICE & ICMIF study, comprising about 6.2% mutual market share increment (total for Europe), we can see that Austria, which has a small sector of the (large) insurance mutual associations realized a modest growth of the mutual market share (compared with those of Europe). The market share of these insurance companies is presented in the next table, for the period 2007-2013, also it is provided the total market share of this sector for the same period.

Table. 15. The market share of mutual insurance associations for the period (2007-2013)

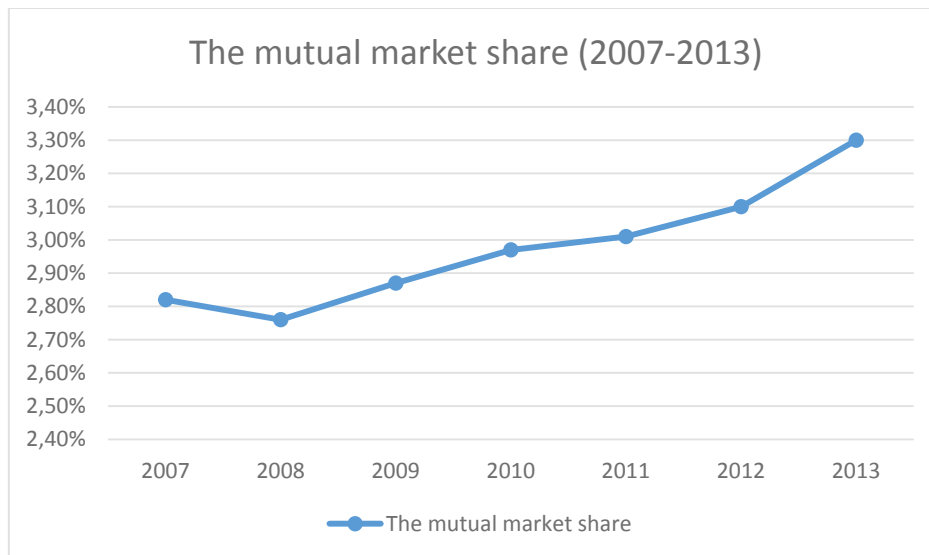
	2007	2008	2009	2010	2011	2012	2013
Österreichische Beamtenversicherung (ÖBV)	1,06%	0,96%	0,96%	0,98%	1%	0,99%	1,03%
Tiroler Versicherung	0,58%	0,57%	0,61%	0,61%	0,54%	0,56%	0,64%
Österreichische Hagelversicherung	0,35%	0,40%	0,46%	0,52%	0,54%	0,54%	0,57%
Voralberger Landes- Versicherung (VLV)	0,41%	0,42%	0,43%	0,43%	0,45%	0,47%	0,47%
Kärntner Landes Versicherung	0,34%	0,33%	0,32%	0,32%	0,32%	0,33%	0,33%
MuKi.	0,08%	0,08%	0,09%	0,11%	0,16%	0,21%	0,26%
Total mutual sector	2,82%	2,76%	2,87%	2,97%	3,01%	3,1%	3,3%

Source: VVO, 2008,2010,2012,2014

In the figure below we can see better the changing trend of the mutual market share, which in 2008 is characterized by a decline on the market share, then follows a moderate increment of the total mutual market share.

Despite the financial turmoil, there is an increase of the market share of these sort of companies (although the increase is very small).

Figure 11. The market share of mutual insurance associations for the time period (2007-2013)



Source: self-presentation, data based on Tab.15

The other indicator (used also by AMICE & ICMIF) is the premiums realized by insurance mutuals associations on this revising period.

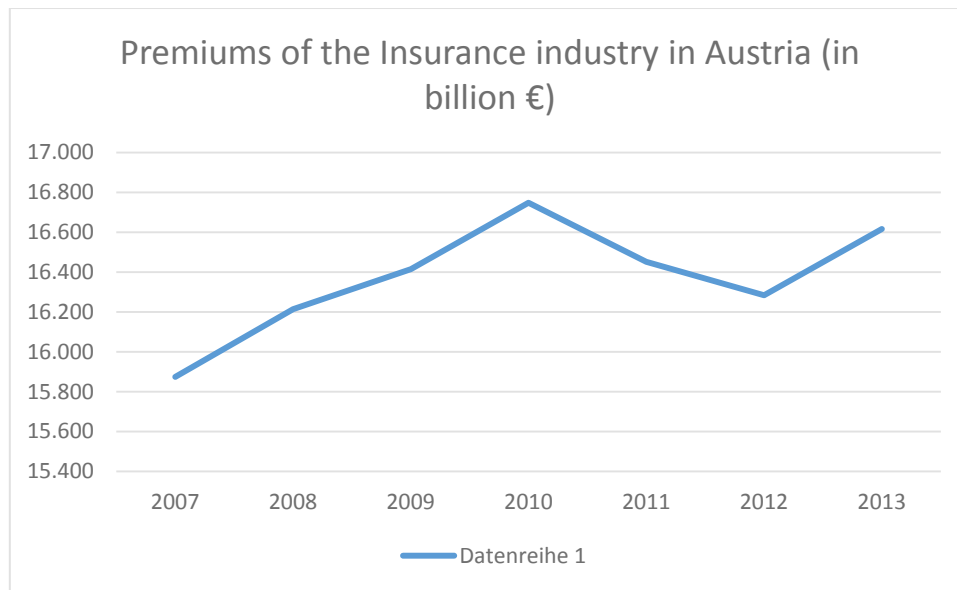
Firstly, in order to have a broader idea and to “judge” right about the mutual sector, I will present the data for the general insurance industry regarding the realized premiums (in billion €) for the period 2007-2013. After that, I will present the data for the mutual sector, their comparison afterwards will reflect the outcome.

	2007	2008	2009	2010	2011	2012	2013
Premiums of the total sector (in billion €)	15,874	16,214	16.415	16.748	16.452	16.284	16.616

Table 16. Premiums of the insurance industry in Austria (2007-2013)

Source: VVO 2008,2009,2010,2011,2012,2013,2014

Figure 12. Premiums of the insurance industry in Austria (2007-2013)



Source: self-presentation, data based on Tab.16

The table shows clearly that at the beginning of the financial crisis, in Austria there was an increase of the realized insurance premiums that lasts until 2010, in 2011 and 2012, the industry was characterized by a decline which started to be recovered in 2013.

In the beginning of the financial crisis, when many countries challenged an abbreviation on realized insurance premiums, Austria realized an increment of insurance premiums. The other later years were characterized by a decline on many macroeconomic indicators, Austria realized a moderate decline on insurance premiums which improved by the end of 2012.

If we see the premiums growth during the referred period I calculated that the growth from 2007 to 2013 is about 4, 67%. Here I must say that while the European insurance industry realized premiums decrease for the period 2007-2012, the Austrian premium growth is positive for the period 2007-2013.

Next will be presented also the premiums of Austrian mutual associations for the same period.

Regarding the (large) insurance mutual association sector, the data about the realized mutual insurance premiums was obtained from the Austrian Insurance Statistics, from the Financial Market Authority site. The realized mutual premiums are presented in thousands of €.

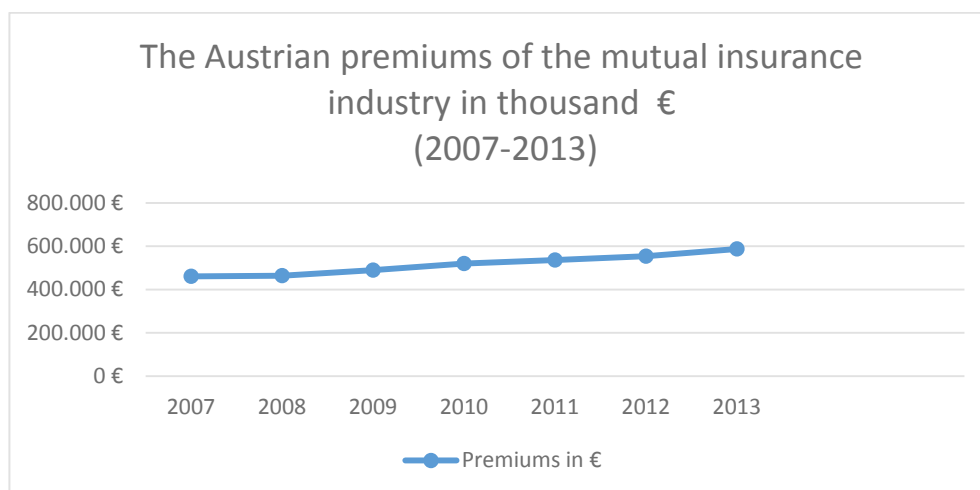
Table 17. The realized premiums of the Austrian mutual insurance associations (2007-2013) in thousands €

	2007	2008	2009	2010	2011	2012	2013
(ÖBV)	168.423	155.297	157.803	164.180	163.546	161.696	171.116
Tiroler Versicherung	99.825	102.210	107.962	113.324	117.450	124.716	128.679
Österreich. Hagelvers.	56.750	67.784	81.944	94.622	95.599	95.964	104.253
Voralberger Landes-Vers.(VLV)	68.299	70.491	73.298	75.246	78.209	80.529	82.239
Kärntner Landes Vers.	55.439	54.871	54.209	54.598	55.369	56.483	57.453
MuKi	12.257	13.363	14.273	18.019	26.022	34.487	43.718
Total mutuals(in thousand €)	460.993	464.016	489.489	519.989	536.195	553.875	587.458

Source: adopted from Austrian Insurance Statistics (*Österreichische Versicherungsstatistik*, 2013, 2012, 2011, 2010, 2009, 2008, 2007)

It is clear now that in Austria there was a premium growth concluded in all referred years. This positive trend is better reflected through the following figure.

Figure 13. The Austrian premiums of the mutual insurance sector 2007-2013



Source: self-presentation based on the data of tab.17

It is fact that there is a continuous stable increase of the calculated insurance premiums of insurance mutual companies, starting from the year 2007, and so until the year 2013.

This increase is consistent with the stable growth of mutual premiums concluded from the ICMIF & AMICE study (even higher than the European total market premium growth). It is very remarkable especially for the years 2010-2012 when the general insurance industry in Austria realized reductions, the mutual sector was characterized with stability and increment.

I calculated also the premiums growth for the mutual insurance sector, and this growth here resulted 27, 4 % (comparing the premium amount of 2007 with that of 2013). This number is very high in comparison with the premium growth of the total sector which was only near 5%.

Besides the above scheming examples, that were motivated by the AMICE& ICMIF study, in order to represent a more accomplished examination of the operation of the Austrian insurance mutuals I decided to attach on this part a very important indicator which is used on the non-life insurance sector.

The non-life insurance sector was presented to be more stable and rising compared to the life sector for the crisis period. In Austria also this sector reflected better performance than the life sector.

This indicator is the combined ratio, which is used in the accident and damage insurance sector. It will be presented the performance of this indicator in the reference years, for insurance mutual associations for the mutual sector in total, for a stock insurance company and for the total insurance industry.

The combined ratio is defined as ratio that measures” *the amount of earned premium that an insurance company must pay to cover the claims and expenses generated by the business* “(ABI, 2007, p. 9).

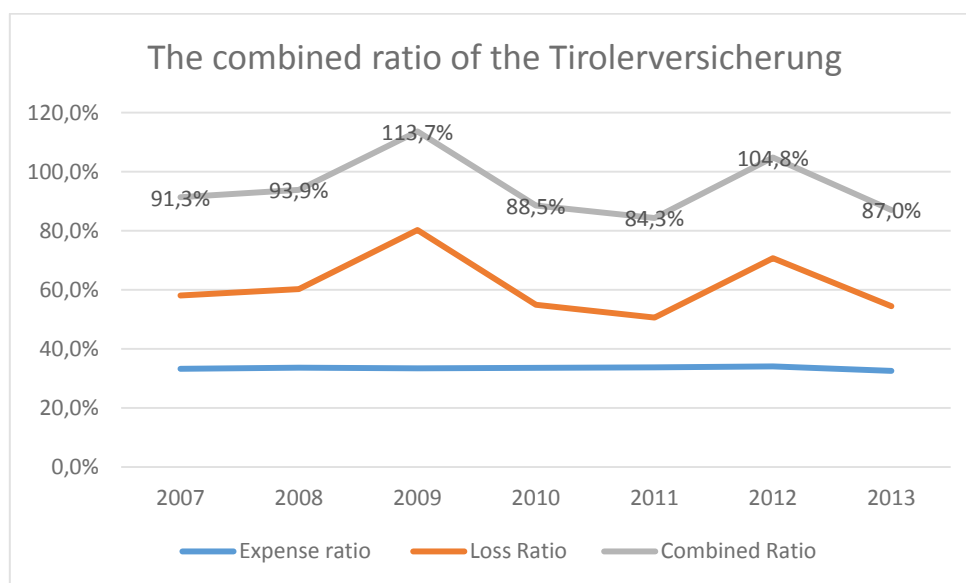
Combined Ratio = (Loss Ratio + Expense Ratio)

Combined ratio is the sum of loss ratio and expense ratio. If the combined ratio is 100% means that insurance company or industry is breaking even on its underwriting business. A combined ratio more than 100%, specifies that premiums were insufficient to cover losses and expenses. And a combined ratio less than 100% signifies a measure of profitability and the efficiency of the insurance company.

Next will be presented the trend of the combined ratio in the reference years, for Austrian (large) insurance mutual companies.

For the mutual insurance company Tirolerversicherung the tendency of the combined ratio looks like in the Fig.15. The data about the combined ratio come from the company annual reports (for some reference years, direct is mentioned (referred) the outcome for the combined ratio, or given are the results for expense and loss ratio, or the outcome of the combined ratio for a specific year is reflected on the outlook of the previous year). In general the combined ratio is below the 100%, exceptions are years 2009 and 2012.

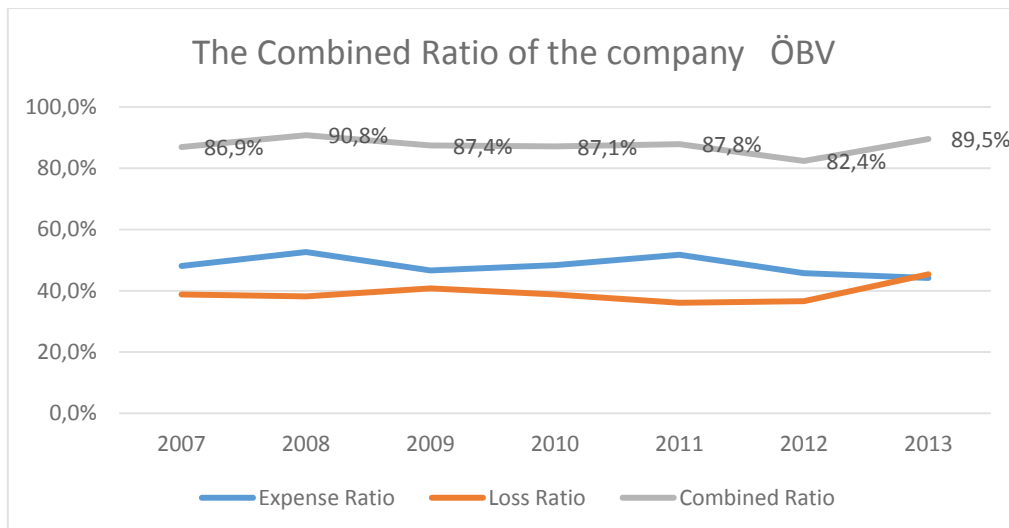
Figure 14. The combined ratio of the company Tirolerversicherung



*Source: self-presentation based on information Tirolerversicherungs
Geschäftsberichte 2007,2008,2009,2010,2011,2012,2013*

The combined ratio for the Company ÖBV, appear to be very positive beside the fact that this company it is more concentrated on the life –insurance sector. All results for the combined ratio are below 100%, which is very positive sign of profitability and efficiency.

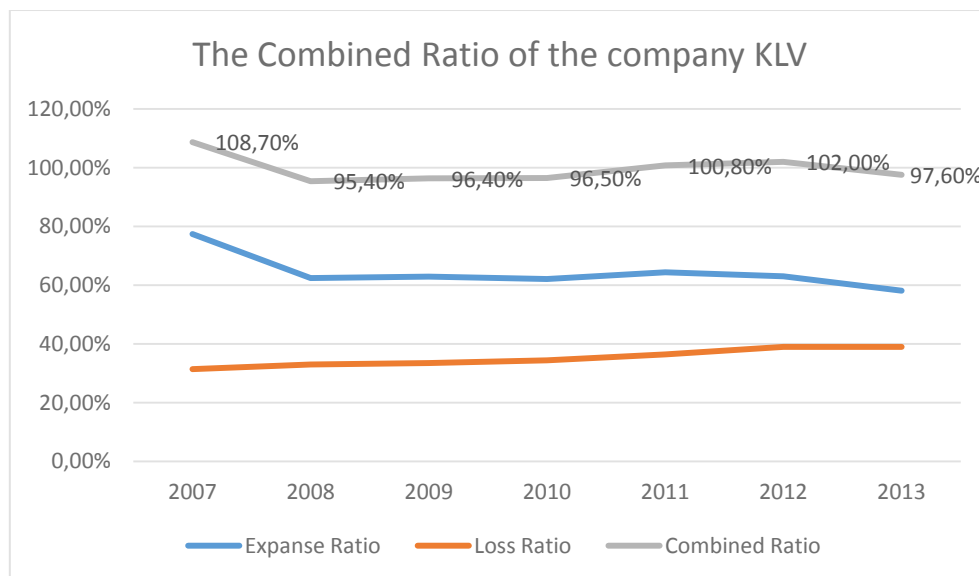
Figure 15. The combined ratio of the ÖBV



Source: self-presentation based on information ÖBV Geschäftsberichte 2007,2008,2009,2010,2011,2012,2013

Regarding the Kärntner Landesversicherung the results are relative stabile, only in 2007 and 2012 the combined ratio is more than 100%.

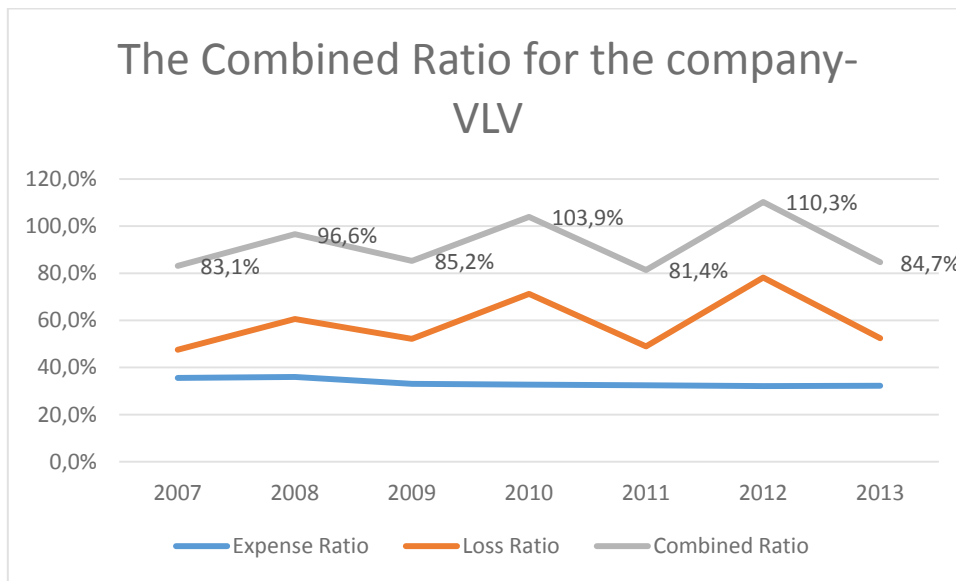
Figure 16. The combined ratio of the Kärntner Landesversicherung



Source: self-presentation based on information of KLV Geschäftsberichte 2007,2008,2009,2010,2011,2012,2013

The mutual insurance association VLV operated with a combined ratio more than 100% in year 2010 and 2012. These years certainly have an impact on the company's profitability, although they are not disturbing.

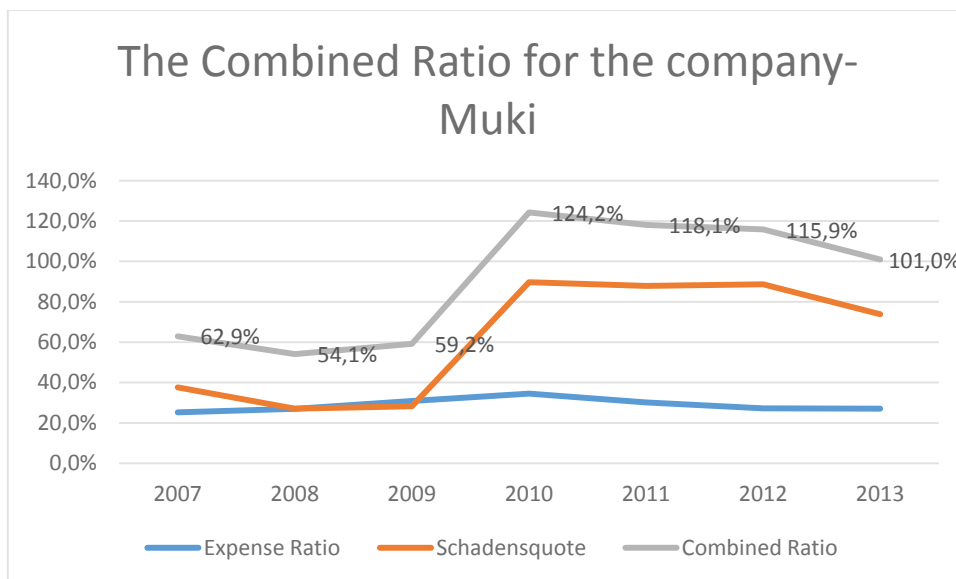
Figure 18. The combined ratio of the VLV



Source: self-presentation based on information of VLV Geschäftsberichte 2007, 2008, 2009, 2010, 2011, 2012

In the end, the mutual insurance association Muki operated with a combined ratio more than 100% in years 2010, 2011, 2012, 2013.

Figure 17. The combined ratio of the MUKI

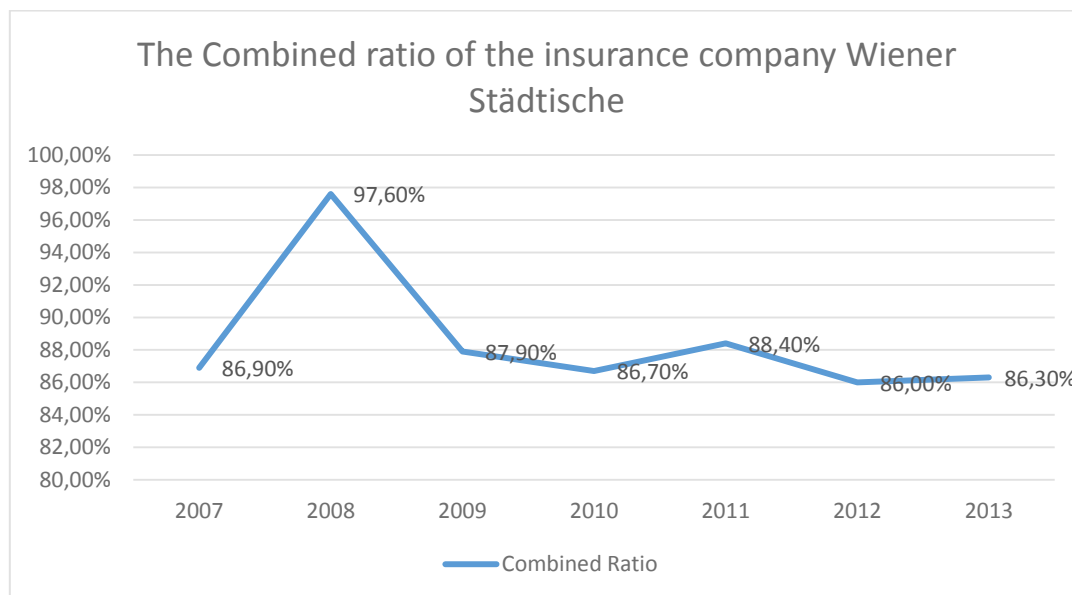


Source: self-presentation based on information of MUKI Geschäftsberichte, 2008, 2009, 2010, 2011, 2012

Next I will present a combined ratio trend for a joint stock insurance company, the Wiener Städtische, the combined ratios of the total (accident) Austrian insurance industry and finally for the mutual accident sector Wiener Städtische is one of the most famous insurance companies in Austria.

If we see the trend of the combined ratio of the insurance joint stock company Wiener Städtische, for all reference years the indicator is lower than 100%, which proves the “gainfully” operation of this company during these period.

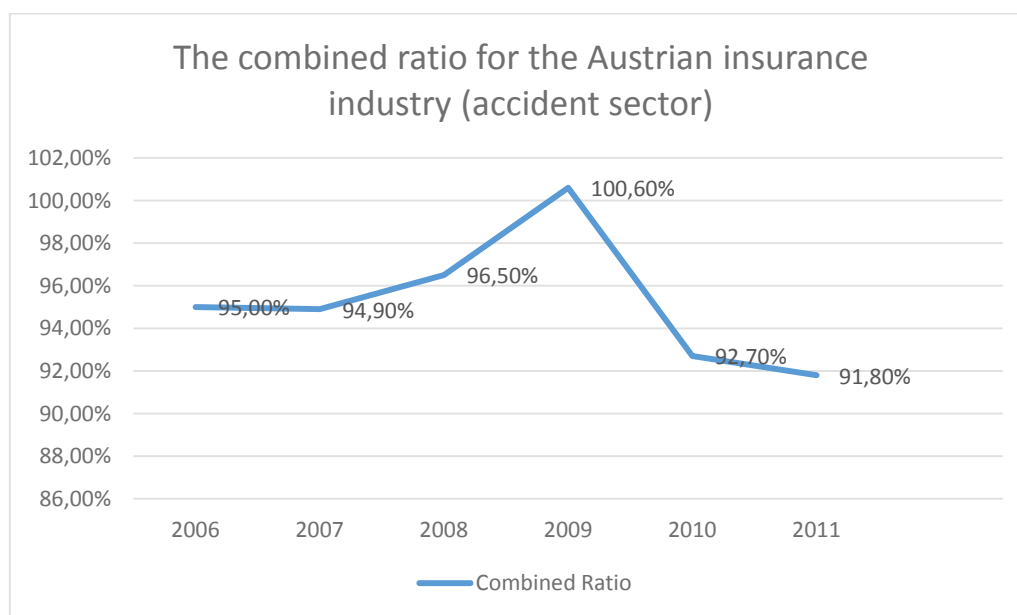
Figure 18. The combined ratio of the Wiener Städtische



Source: self-presentation based on information of Wiener Städtische Geschäftsberichte, 2008, 2009, 2010, 2011, 2012

Regarding the combined ratio of the Austrian accident insurance industry, the data was available until the year 2011. The combined ratio is very stable, with a little deviation in 2009, when the combined ratio was 100, 6 %.

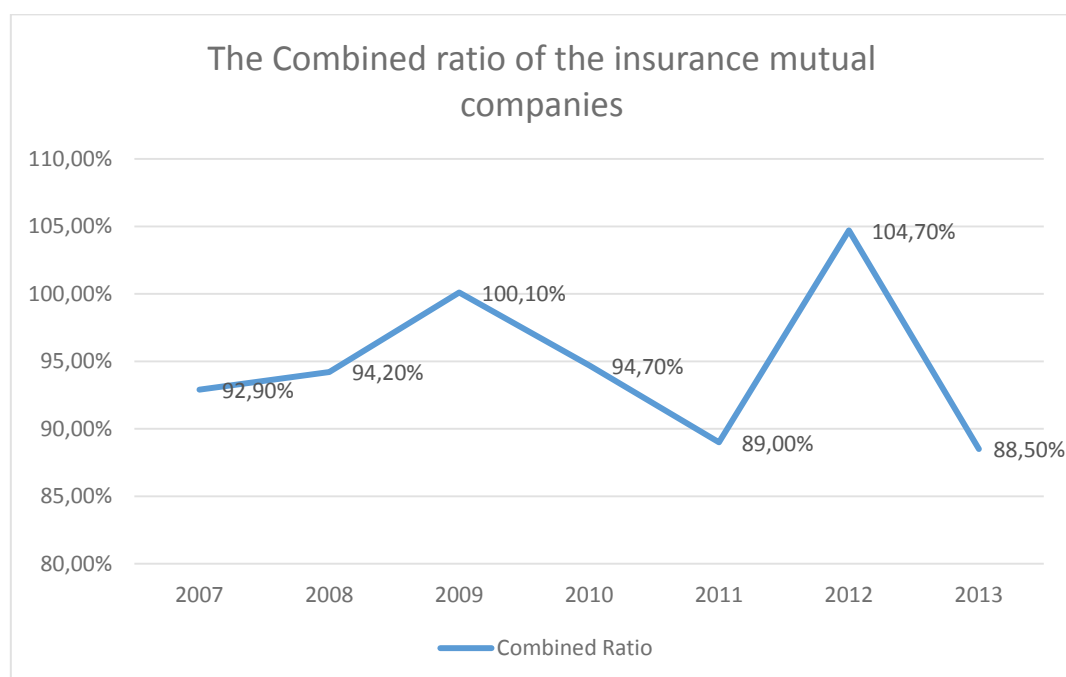
Figure 19. The combined ratio of the Austrian insurance industry (2006-2011)



Source: self-presentation based on information of National bank of Austria, retrieved from (IMF, 2013, p.32)

Finally, it is presented also the combined ratio for the total mutual sector (exception is the data of the mutual insurance company Österreichische Hagelversicherung, there wasn't available data for this company). The combined ratio more than 100% is recognized in 2012. But in general this" key" is very stable.

Figure 20. The combined ratio of the insurance mutual companies



Source: self-presentation

When we review the two last figures, we can appreciate that 2009 was characterized with combined ratio a little bit more than 100% for the total (accident) Austrian insurance industry as well as for the mutual (accident) insurance sector. The data for the total accident insurance industry for the period 2012-2013 is missing. However, fact is that mutual insurance companies own relative stable combined ratios, which in most of the years are below 100%. But, insurance companies with combined ratios over 100% may still can earn profit for the reason that this ratio doesn't account for the investment income and lower combined ratios indicate that the company is more profitable than rivals with higher combined ratios.

4. Conclusions and discussion

Insurance mutuals are known as initial companies that perform insurance activities, societies that aim for protection of their members and businesses that give priority to solidarity against profit seeking. They are still eminent forms of insurances since a high number of peoples select them for protecting themselves against social and property risk.

Traditionally they played important role in the development history of the insurance industry and their characteristics must serve as a guarantee that this position is going to be maintained in the future.

Although many may call them as archaic form of insurance, these companies have survived until today, although over the time, they are faded in number, but they still strongly exist thanks to their community-based business orientation and their economic success.

Considering the market conditions that are threatened from the global financial crisis one can say that insurance mutuals share such features that is very difficult for them to survive in this severe business arena. But the prior evidences suggested that they promoted elasticity during the crisis.

Many financial analysts will agree that at global perspective insurance companies have better confronted with the financial crisis than the bank sector and that insurance companies were affected by the crisis only sporadically. The insurance activities have been relatively stable, especially property and nonlife sector, while the life sector has been volatile.

The financial crisis developed in the banking sector and spread to the insurance sector, this crisis has affected insurers “gently” as the insurance sector entered the crisis from a position of “power”, with adequate solvency ratios, but still there was a decline on solvency positions and reduction of profits, that gambled the future solvency of insurers. Provisions have to be taken to ensure future sustainability of the insurers and for that the key was the solvency II regime.

However, insurance mutuals have proven to be resilient in time of crisis, to keep on the competition with shareholding companies and retaining in many countries high percentage of market share and profitability.

This kind of insurance company is also legally constituted within Austrian Supervision Act, they are still present in the insurance industry and have different importance through their historical development.

In Austria, the development of the modern insurance industry has been initiated with the mutual institutions in the field of fire damage insurance.

In the beginning, insurance mutuals and shareholding insurance companies shared an equal importance, than followed the general tendency of conversion of mutual insurance organizations into joint stock companies. Their number during the last decade is very stable. However, this examination exposed that in Austria Insurance mutual associations represent only a small part of the insurance industry. These companies signify only 3, 3 % of the Austrian insurance market share. Actually only 6 large insurance mutual associations are operating their activities.

Since the financial crisis realized new interest in the mutual insurance sector, because the market share increased so much in some countries, the outcomes for Austria are:

All insurance mutual associations, in the early 2007 owned 2.82% of the market while at the end of 2013, the market share of the mutual insurance sector is 3.3% (the increment is about 0.5%).

If this number of the Austrian mutual market share increment (0.5%) is compared with that of the ICMIF&AMICE study, comprising about 6.2% mutual market share increment (total for Europe), we can see that Austria, which has a small sector of the (large) insurance mutual associations realized only a moderate growth of the mutual market share (compared with that of Europe).

Also, in Austria there was a continuous stable increase of the calculated insurance premiums of insurance mutual companies, starting from the year 2007, and so until the year 2013.

This increase is consistent with the stable growth of mutual premiums concluded from the ICMIF & AMICE study. It is very remarkable especially for the years 2010-2012 when the general insurance industry in Austria realized reductions, the mutual sector was characterized with stability and increment. Insurance mutual companies in general realized more than 20% higher premiums than that of 2007, while the total industry premiums are higher than in 2007 for near 5%.

In general during the financial crisis Austrian insurance companies and insurance mutuals have remained stable, also for the challenges of the Solvency II regime their statements are that they are “healthy” and “equipped” for the future.

Now once we know that the significance of mutual insurance market is mirrored in their economic success, the question is how confident is the impression that the clue of mutuality is going to be maintained in the future, that mutuals share similar possibilities and prospects as joint-stock companies?!

How long it will be believed that these companies perform under the rules of an another strategy, under which they do not aim to compete in new markets, that they are only regional company that are focused only to homogeneous groups with particular demands and expectations ?!

Although not knowing their features, knowing them only from the prism of demutualization and difficulties to provide additional capital the public sometimes calls them weird associations.

Nevertheless, even now, when exists at least one excuse that these companies have proved to be successful in times of crisis still there is a concern that because of the market uniformity, mutuals (in order to stay competitive) will abandon their distinctive features (Grijpstra, Broek, Buiskod & Plooi, 2011).

However, what should be done about the survival and expansion of insurance mutuals?

The government should better understand and appreciate the way in which mutuals operate, it must appreciate companies that have social responsibility integrated in their organization in order to maintain a supportable and reasonable social protection system.

The insurance mutuals deserve assistance and support from the government in many areas, incentives that encourage savings and provide protection in this segment of society and to foster mutualism and in other segments.

What it is very important is that mutuals firstly need a level playing field to be able to compete with stock holding companies in different issues, for example creating mutual grouping and working across borders).

Insurance mutuals present a well-known form of business in Europe, but they haven't owned a legal European framework, there is still no statute for European mutuals.

At this level, mutuals will be better accepted and known as an individual and influential business in the European economic life, promoting the principle of solidarity they will gain market expansion and withstand the crisis.

Last but not least, insurance mutual companies must keep in harmony the quality of their products and customer care, they have to obtain improving ways to response member and social needs.

By promoting mutuality as the essential value of their organization they have to act more “fanatically”, in this way they are fostering diversity within the insurance industry market, making it more competitive and resilient in time of financial crisis.

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6. Appendix

6.1 Abstract in English

No doubt that over the past decade the importance of the third sector has expanded in many countries, this booming section of the economy and organizations of this sector promote distinctive way and ability to fulfill stakeholders' requirements.

Mutual societies, as important component of the third sector, are voluntary organizations of persons whose intention, under the principles of solidarity between members, is to accomplish the needs of their members rather than capital earnings.

They are playing very significant role in the socio-economic life, offering social coverage and protection, or simply said insurance to large number of people.

According to AMICE and ICMIF (International Cooperative and Mutual Insurance Federation) estimate it is calculated that nowadays mutuals provide healthcare and social services to 230 million European citizens and that mutuals and cooperative insurance companies together represent more than 180 billion euros in insurance premiums, they account for 25% of the European insurance market and also employ more than 350,000 people in Europe.

These numbers shouldn't be neglected and underestimated!

However, the financial and economic crisis continued to have a negative effect on the global insurance industry.

According to AMICE & ICMIF (2014) study the financial crisis of 2007 and continuing recession have expressively impacted the growth of the insurance sector in many European countries. But, on the other hand, insurance mutuals and cooperatives have significantly performed better than the total insurance market since the start of the global financial crisis and over 70% of European countries increased their mutual market share in 2011.

Because of this evidence that insurance mutuals have proven to be resilient in time of crisis, retaining in many countries high percentage of market share, this thesis craved to analyze the Austrian mutual market and its operation during the financial crisis.

This revision shows that the Austrian market share of the mutual insurance sector is 3.3% (in 2013), the market share since the onset of the crisis has improve with only an increment of near 0.5 %.Also, in Austria there was a continuous stable increase of the

calculated insurance premiums of insurance mutual companies, starting from the year 2007, and so until the year 2013.

Insurance mutual companies in general realized more than 20% higher premiums than the premiums of 2007, while the total insurance industry premiums are higher than in 2007 for near 5%. Despite the financial crisis, they realized premiums which were increasing throughout the period.

Although the financial crisis didn't hit severely the insurance industry of importance is that it "encouraged" the Solvency II regime and lead to strengthen regulation.

6.2 Abstract in German

Ohne Zweifel ist die Bedeutung des dritten Sektors im vergangenen Jahrzehnt in vielen Ländern gewachsen. Dieser florierende Sektor der Wirtschaft und die Organisation dieses Sektors bieten einmalige Möglichkeiten, um die Anforderungen ihrer Interessengruppen zu erfüllen.

Die *Mutual Societies* oder Gegenseitigkeitsgesellschaften, ein bedeutender Bestandteil des dritten Sektors, sind Organisationen mit freiwilliger Mitgliedschaft, die das Ziel, unter den Prinzipien von Solidarität den Bedürfnissen ihrer Mitglieder entsprechend zu handeln, über kapitale Gewinne setzen.

Sie spielen eine sehr entscheidende Rolle im sozio-ökonomischen Leben, indem sie einer Vielzahl von Personen soziale Absicherungen und Schutz sowie Versicherungen bieten.

AMICE und ICMIF (*International Cooperative und Mutual Insurance Federation*) haben berechnet, dass *Mutual Societies* bis dato 230 Millionen europäischen Bürgerinnen medizinische Absicherung und soziale Dienste anbieten und dass Versicherungsvereine auf Gegenseitigkeit sowie kooperative Versicherungsgesellschaften zusammen mehr als 180 Milliarden Euro an Versicherungsprämien erhalten. Damit beträgt ihr Anteil am europäischen Versicherungsmarkt 25%. Insgesamt beschäftigen Versicherungsvereine auf Gegenseitigkeit in Europa mehr als 350.000 Angestellte.

Diese Zahlen sollten nicht unterschätzt werden. Dennoch hat sich die Finanzkrise negativ auf die globale Versicherungsindustrie ausgewirkt.

Laut einer Studie von AMICE & ICMIF (2014) hatten die Finanzkrise von 2007 und die fortlaufende Rezession einen schwerwiegenden Einfluss auf den Wachstum des Versicherungssektors in zahlreichen europäischen Ländern. Auf der anderen Seite schnitten Gegenseitigkeitsgesellschaften seit Beginn der weltweiten Finanzkrise deutlich besser ab als der restliche Versicherungsmarkt, und 2011 erhöhten mehr als 70% der europäischen Länder ihren Marktanteil an Versicherungsvereine auf Gegenseitigkeit.

Aufgrund dieses Belegs, dass Versicherungsvereine auf Gegenseitigkeit in Zeiten der Krise belastbar sind, möchte diese Arbeit den österreichischen Markt der Versicherungsvereine auf Gegenseitigkeit und seine Funktion in der Finanzkrise analysieren.

Diese Arbeit hat ergeben, dass der österreichische Marktanteil an Versicherungsvereine auf Gegenseitigkeit im Versicherungssektor 3,3% (2013) beträgt und der Marktanteil seit Eintreten der Krise nur um 0,5% angewachsen ist. Ferner ist in Österreich ein kontinuierliches, stabiles Wachstum der Versicherungsprämien in Versicherungsvereine auf Gegenseitigkeit zu beobachten, das im Jahr 2007 beginnt und bis 2013 anhält.

Im Allgemeinen realisierten Versicherungsvereine auf Gegenseitigkeit um mehr als 20% höhere Prämien als 2007, während die Prämien des gesamten Versicherungsmarktes innerhalb dieses Zeitraums um knapp 5% anwuchsen. Trotz der Finanzkrise verzeichneten Versicherungen ein Wachstum bei den Versicherungsprämien.

Obgleich die Finanzkrise die Versicherungsindustrie nicht schwer getroffen hat, ist es von Bedeutung, dass sie die Begründung von Solvency II anregte und zu strengeren Kontrollen führte.

6.3 Curriculum Vitae

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