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## Mutual insurance companies on the Polish insurance market — the current situation, opportunities not taken and perspectives for development (selected issues)

*Mutual insurers are a constant element of the global insurance market. The present article characterizes the basic traits of mutual insurance and presents an analysis of the current situation of mutual insurers in Poland and Europe. The second part focuses on opportunities not taken and potential areas of activity for mutual insurance societies in Poland by presenting them against the experience of other European countries.*

**Keywords:** mutual insurance, insurance market, insurance for local government units, agricultural insurance, social security.

### Introduction

A characteristic element of an insurance market is the presence of two concepts; two modes of running insurance activity — non-commercial (based on the idea of mutuality) and commercial. Companies that base their activity on the non-commercial idea differ from the commercial ones in the basic goal of their functioning and organization; i.e. mutual relations between the main shareholders of insurance undertakings and, above all, the financial aspect connected with advanced premiums that should be settled between the insurers. Currently in Poland the idea of mutual insurance is realized by two types of organization: mutual insurance societies (in Polish referred to in short as TUWs), small mutual insurance societies and insurance joint stock companies working on a commercial basis.<sup>1</sup>

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1. Insurance Activity Act of 11 September 2015 (Journal of Laws 2015, item 1844) introduced a new notion of small joint stock company.

The present article strives to answer the question of whether mutual insurance societies have a chance of strengthening their position on the Polish insurance market. In order to respond, there will be a thorough analysis provided of the current situation of Polish mutual insurance societies in Poland, and also compared against the European insurance market. Moreover, the analysis will include selected areas of activity which may lead to potential development for this market.

## 1. Mutual insurance as a method of running business activity

The insurance market is characterized by the co-functioning of two types of insurance organizations. In contemporary insurance, almost 30% of a premium goes to insurance companies whose activity is based on the idea of mutuality. The residual part of the premium is collected by those organizations (insurance companies) whose activity is based on commercial rules.

The idea of mutual insurance derives from the very essence of insurance and dates back to antiquity. It stems from the idea of group solidarity and is realized by a local government body whose activity is based on self-help and altruism. Members of such organizations aim at mutual insurance against negative effects of fortuitous events and it is visible in their mutual readiness to compensate for losses. Their goal, therefore, is to provide cheap and reliable insurance protection.

Concluding, the most essential aspects of mutual insurance include:

- the not-for-profit aim of activity,
- the more complex satisfaction of needs regarding insurance protection with respect to the scope of services, their quality and price,
- free membership and autonomous management,
- self-governance.

In order to explain the phenomenon of the co-existence of two completely separate concepts influencing how insurance activity is conducted, authors often point to the role of agency theory in the literature on the subject. This theory on company functioning is considered to be a part of modern enterprise theory, which is classified as so-called new institutional economics.<sup>2</sup>

In insurance companies the relations of agencies may concern four groups of stakeholders — owners, managers, policyholders and employees.<sup>3</sup> In considerations regarding competitive edge (or its absence) in the relation between mutual and commercial insurer, groups of stakeholders are usually narrowed into three types:<sup>4</sup>

- owners, who supply equity and in exchange are entitled to a share in profits of the insurance company,
- managers, who decide on the organization, functioning and financing of the insurance company,
- clients, who purchase service offered by the insurance company.

Depending on the concept underpinning the insurance activity, mutual relations between particular stakeholders may vary and, consequently, agency relations may also be different (Figure 1)

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2. For more see O. Williamson, *Reflections on the New Institutional Economics*, "Journal of Institutional and Theoretical Economics", 1985, vol. 141, pp. 187–195.

3. A. Noga, *Teorie przedsiębiorstw*, PWE, Warszawa 2009, pp. 155–158.

4. D. Mayers, C.W. Smith, *Agency Problems and the Corporate Charter*, "Journal of Law, Economics, and Organization", 2000/21 (2), pp. 417–440.

**Figure 1. Relations between the owner, client and manager in various forms of insurance activity.**

commercial insurer	Managers	owners	clients
mutual insurer	managers	owners = clients	

Source: D. Mayers, C.W. Smith, *Agency Problems and the Corporate Charter*, "Journal of Law, Economics, and Organization", 2000, vol. 21(2), pp.417–440

The essence of agency theory is based on the assumption that actions and goals of particular stakeholder groups (in theory primarily called agent and principal) are in conflict (at least partially) and the verification of agent actions is difficult or costly to the principal. At this point it is worth stressing the different attitude to risk of both groups (contract parties may prefer other behaviours due to a different attitude to risk), incomplete contracts, and information asymmetry regarding both sides of agency relations. Another key condition is the occurrence of costs connected with the entering into and execution of a contract (principal–agent). One may distinguish three categories of agency costs:<sup>5</sup>

- costs incurred by the principal — in order to control the agent and motivate them to act in accordance with the principal's interest,
- costs incurred by the agent — in order to gain the principal's trust,
- alternative (residual) costs — denoting loss of usefulness by the principal as a result of the agent's and principal's different interests.

Agency costs are, therefore, costs connected with reducing and solving conflicts which occur between stakeholder groups surcharged by the value of service (production) capacity lost as a result of the inability to eliminate these conflicts from the functioning of an enterprise.<sup>6</sup> As per agency theory, institutions that are able to manage agency costs effectively, i.e., minimise them, gain a competitive edge on the market.<sup>7</sup>

In insurance companies, the basic agency conflict concerns owner-client relations. In the case of the first group, their key priority is the maximising of company market value, whereas for clients the minimisation of both premiums and the risk of unpaid claims is of key importance. For mutual insurance companies, risk is shared with policyholders, and policyholders provide the capital and are entitled to residual gains of losses. In stock insurance companies, stockholders supply capital and claim the residual value of a company.

Therefore, when insurance risk is high, a client chooses commercial insurance over mutual insurance. In the literature, this is called "policyholder incentive to free ride", or to expropriate stockholder capital.<sup>8</sup> Mutual insurance companies are subjects that engage in low risk activities since mutual insurance is more likely to be found in business lines with a lower underwriting risk. They are not forced (by owners) to produce good financial results at all costs contrary to commercial insurers where the investor expects high profitability or increasing company value which (in short or long term) will guarantee satisfactory return on equity invested in the company. As a result, stockholders put pressure on increasing investment risk

5. M.C. Jensen, W.H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*, "Journal of Financial Economics", 1976, vol. 3, pp. 305–360.

6. U. Birkmaier, D. Laster, *Are mutual insurers an endangered species?* Sigma, 1999, vol. 4.

7. E. F. Fama, M. C. Jensen, *Separation of Ownership and Control*, Journal of Law and Economics, 1983, vol. 26, pp. 301–325.

8. C. Laux, A. Muermann, *Financing Risk Transfer under Governance Problems: Mutual versus Stock Insurers*, "Journal of Financial Intermediation", 2010, vol. 19(3), pp. 333–354.

— choice of more risky assets [connected with insurer investments]<sup>9</sup>. Priority of mutual is the interest of their members, not investors, which can be seen in greater predisposition to engage in activities ethical to its members as well as the whole community<sup>10</sup>. In effect, all actions aimed at improving asset quality through financial engineering or creative accountings are not in the nature of mutual insurers.

In literature one may come across views (verified historically) that periods of financial crisis and disasters are times of activity for mutual insurances and simultaneous equity withdrawal from stock companies<sup>11</sup>. Doherty and Dionne<sup>12</sup> while analysing mutuality in the 80s pointed to the fact that when there are undiversifiable risks and the resultant external capital is costly, consumers will choose to bear risk themselves. This also explains the presence of mutual insurances in specialized business lines with high or unpredictable burden of losses (agriculture, medical errors etc.). On the other hand, the research shows that when risk is more predictable and external capital is more accessible, the stock firm is preferred.<sup>13</sup>

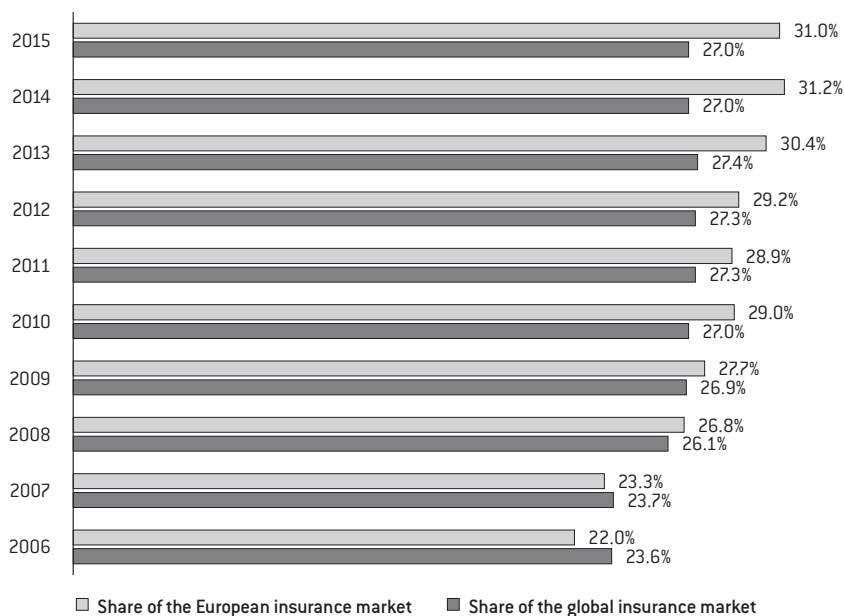
As a result of incurred losses investors reduce considerably their investment activity, which makes room for social activity and mutual insurances take over the market.<sup>14</sup>

## 2. Mutual insurances on the European and Polish insurance market

Due to the aforementioned characteristics stressed in literature, one may come across opinions that currently the idea of mutual insurances "is going out of date".<sup>15</sup> At the same time, research on mutual insurances contradicts this thesis completely. In 2015 mutual insurers collected about 27% of the global insurance premium, with 23.3% in life and 30.9% in non-life insurances.<sup>16</sup> Moreover, it needs to be stressed that since 2008 on the European market mutual insurers have had a larger share in the premium than the global average (Figure 2).

9. J. Lamm-Tennant, L. T. Starks, *Stock Versus Mutual Ownership Structures: The Risk Implications*, "Journal of Business", 1993, vol. 66(1), pp. 29–46.
10. M. Janowicz-Lomott, *Ętyka w działalności zakładów ubezpieczeń wzajemnych – wybrane problemy* (in: *Zarządzanie wartością przedsiębiorstwa w warunkach zakłóceń na rynkach finansowych*, eds. J. Bieliński, M. Czerwińska, Fundacja Rozwoju Uniwersytetu Gdańskiego, Gdańsk 2009, pp. 578–586.
11. M. Janowicz-Lomott, *Kryzysy finansowe szansą dla ubezpieczeń wzajemnych? Obserwacje globalnego kryzysu finansowego*, „Wiadomości Ubezpieczeniowe”, 2010, nr 1, p. 33–48, available at <https://piu.org.pl/public/upload/ibrowser/33–48.pdf>, C. Laux, A. Muermann, *Financing...*, op. cit., pp. 333–354.
12. N. A. Doherty, G. Dionne, *Insurance with Undiversifiable Risk: Contract Structure and Organizational Form of Insurance Firms*, "Journal of Risk and Uncertainty", 1993, vol. 6, issue 2, pp. 187–203.
13. D. Mayers, C.W. Smith, *Agency...*, op. cit.
14. For more see: M. Płonka, *Determinanty konkurencyjności towarzystw ubezpieczeń wzajemnych w Polsce*, Wydawnictwo Uniwersytetu Ekonomicznego w Krakowie, Kraków 2013, pp. 57–91.
15. M. Iwanicz-Drozdowska (ed.), *Ubezpieczenia*, Oficyna Wydawnicza SGH, Warszawa 2013, p. 19.
16. The analysis of the mutual insurers' situation is based on data from reports of the ICMIF. The ICMIF's definition of "mutual" (also a "cooperative" which operates also on mutual principles) in this reports includes organizations whose legal status may not be classified as mutual in their national law, but whose structure and values reflect the mutual/cooperative form, i.e., companies which are owned by, governed by and operated in the interests of their member policyholders (fraternal benefit societies, friendly societies, reciprocals, protection and indemnity [P&I] clubs, community organizations and foundations). For groups of companies, whether their operations are national or multinational, figures for the whole group, including subsidiaries (even when subsidiaries are organized as joint-stock companies) have been included. Where possible, business written outside the group's home country has been deducted from the national figures in the mutual market share data and added into the country where the business has been written. ICMIF, *Global Mutual Market Share 2014*, ICMIF, 2016.

Figure 2. Share of mutual insurers in the total premium insurance collected globally and in Europe in 2007–2015 (in %)



Source: own elaboration based on ICMIF reports.

The effect of increasing market share was reached in 2007–2014 thanks to premium dynamics that were greater than in joint stock companies. In total, in 2007–2014 the increase of premiums for the whole market reached about 16%, whereas in the same period, the dynamics for mutual insurance reached almost 30%.

Also, mutual insurers have a stronger position on regional insurance markets than in European countries (Table 1). As a result of ICMIF methodology, a high share of mutuality is observed in such countries as Slovakia (where legally it is not possible to conduct activity as mutual insurance societies).

Table 1. Insurance markets with the highest mutual insurance share in global premium collection in 2014

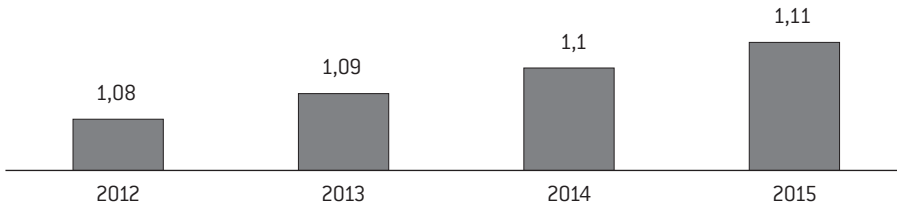
	Country	Share in premium (%)
1	Finland*	69.7%
2	Norway	61.3%
3	Austria	61.1%
4	Holland	51.0%
5	Sweden	49.5%
6	France	47.7%
7	Denmark	46.6%
8	Slovakia	45.4%
9	Germany	44.4%
10	Hungary	44.1%
	Japan	40.8%

\* Including mutual insurance societies running obligatory social insurance

Source: own elaboration based on ICMIF reports.

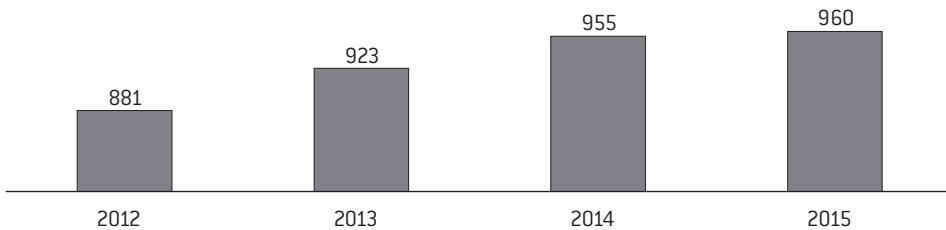
Apart from collecting great potential to collect insurance premium, mutual insurance societies constitute an important European employer (Figure 3) and engage millions of members in their activity (Figure 4).

Figure 3. The number of employees in mutual insurance societies in 2012–2015 (in millions of employees)



Source: own elaboration based on ICMIF reports.

Figure 4. The number of members belonging to mutual insurance societies in 2012–2015 (in millions of members)



Source: own elaboration based on ICMIF reports.

In Poland, the activity of mutual insurance societies was reactivated in 1990 after nearly forty year's break in their functioning. Mutual insurance can only be carried out by a mutual insurance society, but in two different forms:

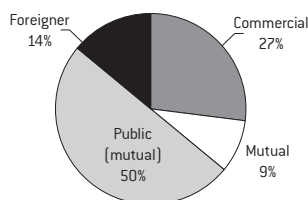
- as a mutual insurance company,
- as a small mutual insurance company.<sup>17</sup>

Despite great traditions of mutual insurance companies in the pre-war Poland (Figure 5), their present share in the market is barely 3% of gross premiums (Figure 6) (in accordance with methodology which is in line with Polish insurance legislation and regards only companies registered in Poland as TUWs as insurance mutualities).

17. See more M. Janowicz-Lomott, *Małe towarzystwa ubezpieczeń wzajemnych na europejskim rynku ubezpieczeniowym-stan obecny i perspektywy wynikające z dyrektywy Wypłacalność II*, *Kwartalnik Kolegium Ekonomiczno-Społecznego Studia i Prace, Szkoła Główna Handlowa*, nr 3, t. 4, p265–278, available at <http://kolegia.sgh.waw.pl/pl/KES/kwartalnik/Documents/MJL234.pdf>

Figure 5. The estimated number of insurance undertakings and their market premium collection share with respect to forms of organization (as of 01.01.1939)

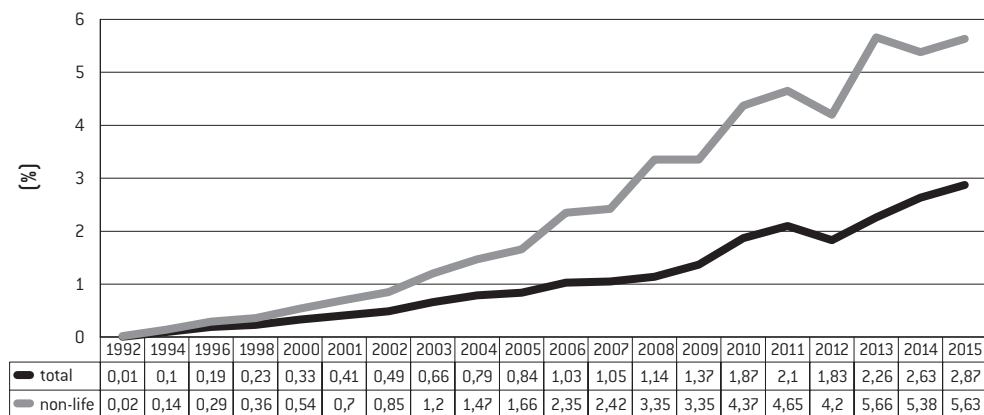
Type of insurer		number
Domestic commercial insurance companies		15
Mutual insurers		10
	small	42
Public insurance companies (mutual form)		5+1
Foreigner insurers		6



Source: own elaboration based on the Annual Report of Państwowy Urząd Kontroli Ubezpieczeń (National Office of Insurance Control) for 1938

Currently (as of 31.12.2016) in Poland 10 mutual insurance undertakings act in the form of TUWs (including two, TUW Medicum and TUW PZUW, which received their permit to conduct insurance activity in the second half of 2015, and Polish Gas TUW, which received its permit in 2016).

Figure 6. TUW share in gross premiums of insurance market (global) and non-life insurance (Section II) in Poland in 1992–2015



Source: own elaboration based on PFSA (Polish Financial Supervision Authority) data

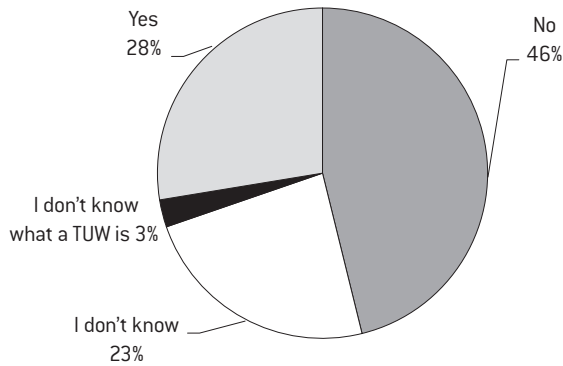
As a result, one can observe the constant growth of insurance mutuality in Poland. Nevertheless, it is still far from the European average<sup>18</sup>.

18. M. Płonka, Rozwój towarzystw ubezpieczeń wzajemnych w Polsce, Zeszyty Naukowe Uniwersytetu Ekonomicznego w Krakowie, nr 848, Kraków 2011.

### 3. Local government units and mutual insurance

Government (including local government units- LGU) seems to be a natural area for the functioning of insurance mutuality. Currently (according to research of 2013<sup>19</sup>), almost 28% of communes declare cooperation with TUWs. Interestingly, 23% of respondents did not know whether the company holding their insurance contract was a TUW, and 3% were not aware of the concept of a mutual insurance society. It needs to be stressed that the respondents were responsible for implementing risk management in communes (Art. 68 of the Public Finances Act,<sup>20</sup> where risk management is defined as one of the elements of management control, determines the application of risk management in local government unit)

Figure 7. Response structure to the query regarding whether a LGU has insurance contracts concluded with a TUW (n=366)



Own elaboration

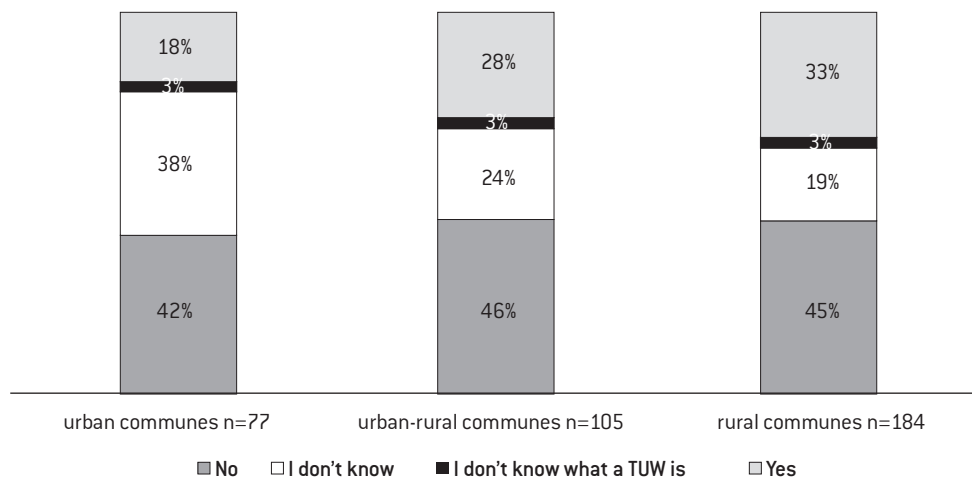
While analysing the response structure with respect to types of local government units, it can be seen that the share of “no” responses is almost the same in all types of units, whereas the reply “yes” dominates in rural communes. The greatest number of “I don’t know” or “I’m not aware of this” responses was given in urban communes (in total around 41%).

19. Data from research conducted as a part of NCN research project “Risk management in the activity of local government units with particular focus on disastrous risk” (No N N113 360740). The survey’s research was conducted in 366 communes (of which 184 were rural, 77 urban and 105 rural-urban). It used extended samples, random sampling, CATI research (direct interviews with a person responsible for risk management in a commune).

20. Public Finances Act of 27 September 2009 (uniform text in Journal of Laws 2016, item 1870 as amended).



Figure 8. Response structure to the query regarding whether a local authority unit has insurance contracts concluded with TUV, organised by type



Own elaboration

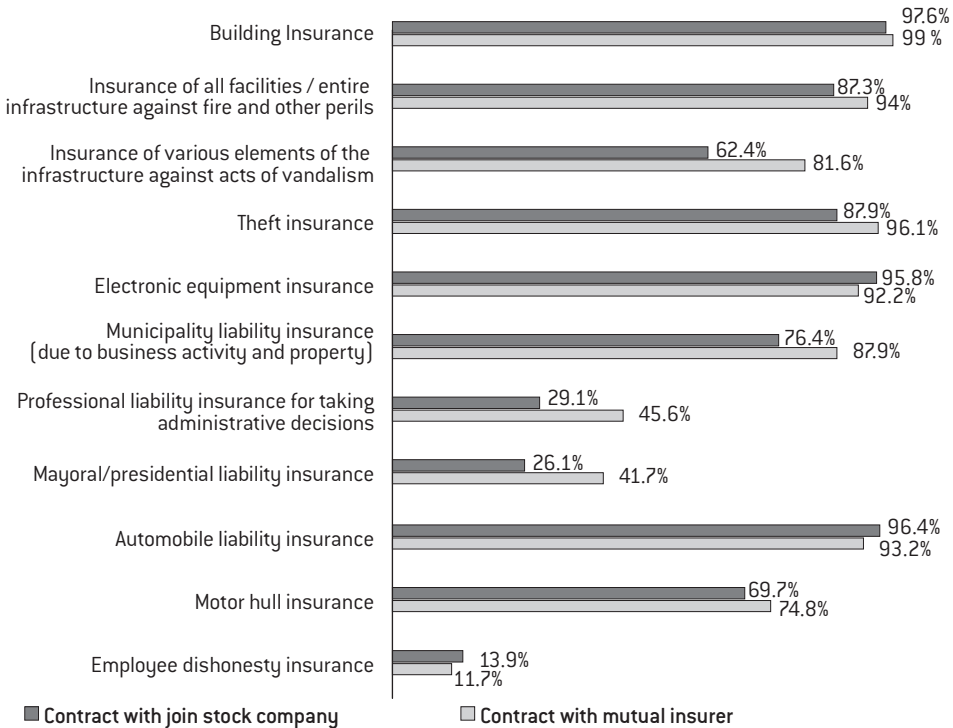
The scope of insurance protection for a LGU may be varied, but three main groups can be distinguished:<sup>21</sup>

- property insurance — focused on the protection of assets owned by local authority units,
- insurance of rights and liabilities — allows the protection of such values as receivables or liabilities,
- personal insurance — allows the protection of persons employed in the offices or units of local government, i.e., their life, health and ability to work.

It is striking that insurance undertakings declare similar types of insurance, irrespective of whether an insurance contract is concluded with a mutual or joint stock company, (Figure 9).

21. B. Hadyniak, J. Monkiewicz, *Ubezpieczenia w zarządzaniu ryzykiem przedsiębiorstwa, tom 1 Podstawy*, Poltext, Warszawa 2010, p. 54.

Figure 9. Insurance contracts concluded by a JST with mutual and joint stock companies.



Own elaboration

The use of insurance as a risk management method has many advantages as well as disadvantages from the perspective of the insuring party. Evidently it needs to be highlighted that a well-concluded insurance contract may lower the costs connected with the effects of a fortuitous event levied on local government units. Therefore, cooperation between a LGU and insurance undertakings can create the basis for preventive activities (particularly in periods of the so-called hard market, i.e., times when insurance undertakings do not accept present securities and set new requirements). On the other hand, it is necessary to pass a large amount of detailed information regarding the unit to the insurance undertaking. It is crucial to properly assess a LGU's risk, yet this may cause another danger, for instance, following the disclosure of disadvantageous information regarding how a LGU functions or potential claims against LGU. In such cases, it seems reasonable to have one's own insurance undertaking, or one where the unit plays an important decision-making role (e.g., one's own TUW). Additionally, one may also define a range of additional benefits arising from insurance contracts concluded by a LGU. The most important include:

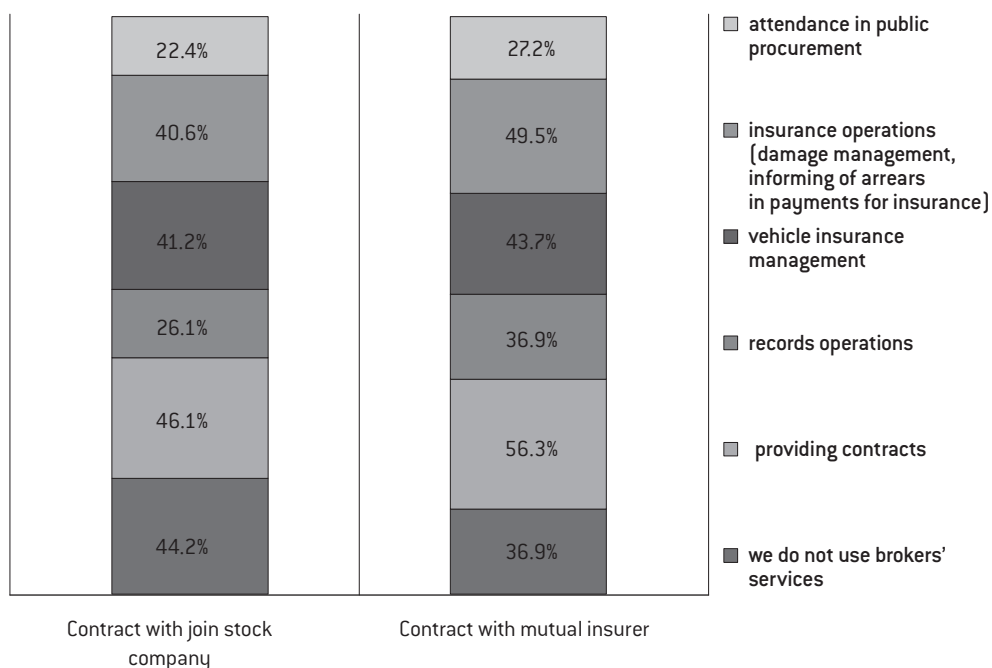
- support of an insurer or intermediary in LGU risk assessment, including risk requiring specialist knowledge and skills, e.g., environmental damage, employer's practice liability or risk connected to construction work<sup>22</sup>,

22. Such activities are undertaken at the stage of constructing an insurance program and preparing a SIWZ [Specification of Essential Terms of a Contract], as well as within the so-called *risk surveys*.

- identifying recommended preventive actions (e.g. fire protection systems, procedures determining action in case of risk occurrence); this allows thorough risk assessment among LGU employees,
- management of liabilities and provision of material support in lawsuits, particularly in third party liability cases.

It should be mentioned that although insurance intermediaries (especially brokers) are commonly perceived as "useless" while pursuing cooperation between a LGU and TUV, in practice it is observed that those communes that concluded such contracts used the services of an independent insurance intermediary more often than not, and in greater scope (Figure 9).<sup>23</sup>

Figure 9. Using the services of an insurance broker in the conclusion of an insurance contract with a TUV (n=268, the analysis excludes LGUs where the response to the question "was the contract concluded with TUV" was either "I don't know" or "I don't know what a TUV is/what TUV means").



Own elaboration

These benefits become even more significant when it comes to an insurance undertaking created by a JST. Nonetheless, pursuing the TUV route requires a thorough assessment of potential advantages and disadvantages that accompany this form of activity. They concern not only financial evaluation, but also, and above all, risk assessment.

An insurance undertaking, created so as to protect a LGU against the effects of unfortunate events (including disastrous events), could function as a big TUV or a TUV with regional

23. See more M. Janowicz-Lomott, K. Łyskawa, M. Wojtkowiak, *Rola brokera w aranżowaniu programów ubezpieczeniowych dla JST* [in:] *Ubezpieczenia na rzecz gospodarki globalnej, sektorów i regionów*, ed. I. Jędrzejczyk, Oficyna Wydawnicza Edward Mitek, p. 218–230.

(voivodeship) societies of members of the mutuality. In theory, it is also possible to create 16 insurance undertakings — voivodeship TUWs which would need to establish some common form of organisation, however (e.g., a pool). As the concentration of disastrous risks is high in certain regions (e.g. Małopolskie or Dolnośląskie), the solvency of such regional TUWs would be highly at risk without any risk exchange with other regions. In the case of disastrous events, it may turn out that the second level of risk dispersion (at the TUW level) is also insufficient<sup>24</sup>. Therefore, the state should play a major role here by taking on the position of reinsurer of the last resort. This means that an insurance undertaking in the form of a TUW, by acting as any kind of undertaking, would finance the damages from collected insurance premiums. As the core subject of insurance protection offered by this undertaking would be property insurance (including protection against the effects of disastrous events), it would be necessary to use reinsurance or even risk securitization. Due to a geographical correlation of disastrous events and the difficulty in evaluating their recurrence in time, the state may implement an additional risk management mechanism by intervening only when the damages were too high to be covered in the course of regular insurance activity. Such a solution would not engage public finances in subsidizing commercial activity, yet it would guarantee the solvency of such an undertaking to a significant degree. A great benefit of this idea, stressed in many sources, is the possibility to spread the damages over time, which cannot be guaranteed by market solutions.

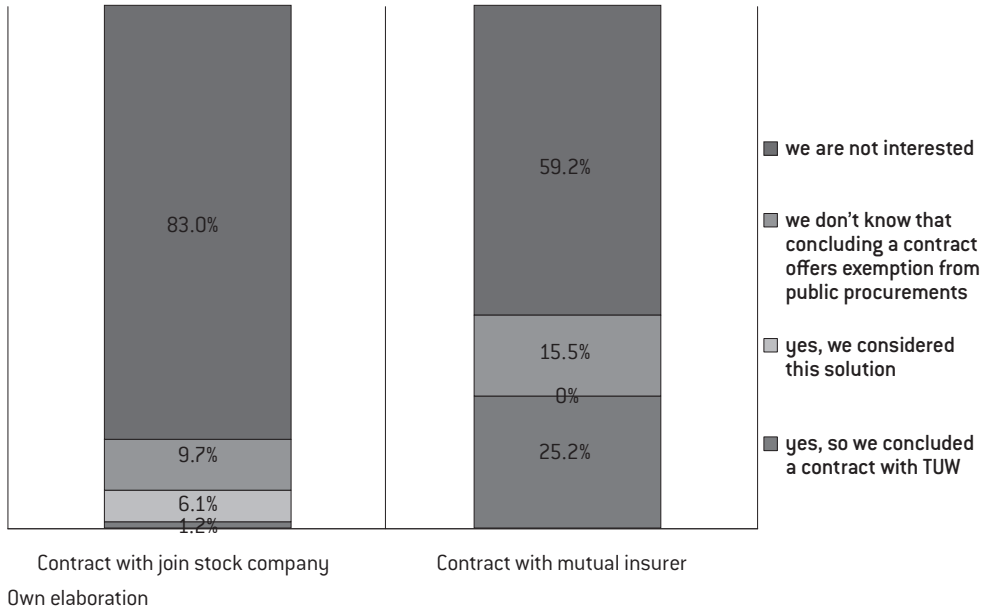
Members of such a TUW should be local government units and they should play a critical role in its decision-making and management. The procedure of creating a TUW was specified in the Insurance Activity Act of 11 September 2015, therefore, it does not need the enactment of any additional legal support. The legislator should also precisely declare that LGUs may create TUWs.

Insurance services should be purchased in accordance with public procurement laws, yet it is not mandatory for a LGU as TUW members to organize public tenders within public procurements in order to conclude insurance contracts with a TUW<sup>25</sup>. Almost 255 communes which have insurance contracts with TUWs concluded them so as to exercise the right to bypass the procedure of public procurement (Figure 11).

24. M. Jastrębska, M. Janowicz-Lomott, K. Łyskawa, *Zarządzanie ryzykiem w działalności jednostek samorządu terytorialnego ze szczególnym uwzględnieniem ryzyka katastroficznego*, Wolters Kluwer S.A, Warszawa 2015, pp. 283–330 and 355–365.

25. Nevertheless, one may come across differing opinions on this subject. See W. Dzierżanowski, *Ubezpieczenia w Towarzystwie Ubezpieczeń Wzajemnych a przepisy o zamówieniach publicznych*, „Prawo Asekuracyjne”, 2016(3), pp. 51–64.

Figure 11. Exemption from the necessity to organize public tenders within public procurements and the use of insurance protection offered by TUWs (n=268, as in Figure 10).



What is striking here is that nearly 60% of those insured in a TUV declared a lack of interest in the possibility of exemption from Public Procurement Law, whereas almost 27% of similar communes used the services of a broker with regard to public procurement operations.

#### 4. Social security, the health care system and insurance mutuality

Until the 20<sup>th</sup> century, mutual insurance was the first form of social protection in Europe. After the creation of social security systems, mutual insurances companies adjusted themselves to the new socio-economic situation. In the majority of cases they focused on an alternative role by creating additional voluntary health or pension insurance (supplementary to the entry-level system). Evidently, the scale and use of this insurance varies in different countries.

While analysing issues connected with financing health care, two possible solutions for financial participation in the system which determines (or should determine) the options of this participation<sup>26</sup> should be mentioned:

- mandatory participation (usually concerning base security),
- voluntary participation (concerning supplementary insurance or additional security).

In the second case, voluntary health insurance, the variety of available solutions should be stressed.<sup>27</sup>

26. For more on this subject, see T. Szumlicz, *Ubezpieczenie w polityce społecznej. Teksty i komentarze*, Fundacja Instytut Zarządzania Ryzykiem Społecznym, Warszawa 2015, pp. 237–262.

27. *Ibid.*, pp. 268–269.

- complementary health care insurance — when private insurance complements standard scope and/or quality of protection provided in the scope of a base system,
- supplementary health care insurance — when private health insurance is to guarantee the desired level of access to high quality health services in cases where such access is hampered within a base system,
- substitutional health care insurance — when it is possible to withdraw from a base system under the condition that one purchases private insurance that provides better standards of health insurance.

The use of mutual insurance in systems of health care may concern their mandatory part, as well as their voluntary part (Table 2).

**Table 2. The role of mutual insurance in the system of health insurance in EU member states**

The role of mutual insurance in health care	EU member states
Active exclusion within mandatory insurance	Greece <sup>28</sup>
Active within the systems of mandatory and supplementary insurance	Belgium, Netherlands
Active exclusion within voluntary insurance	Austria, Germany, Denmark, Spain, Finland, France, Hungary, Italy, Luxembourg, Malta, Poland, Portugal, Sweden, Slovenia, Great Britain
Not present in the system of health insurance	Bulgaria, Ireland, Latvia, Romania

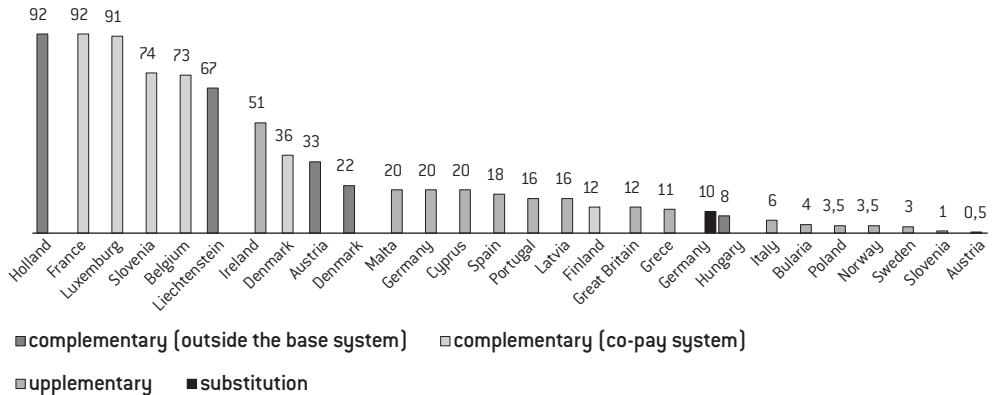
Source: D. Grijpstra, S. Broek, B. J. Buiskool, M. Plooj, The role of mutual societies in the 21<sup>st</sup> century, European Parliament, Directorate-General for Internal Policy, Policy Department on Economic and Scientific Policy, Employment and Social Affairs, 2011

Despite placing Poland in area three (within voluntary insurance), the activity of TUWs in this respect is almost non-existent. The reorganisation of the health care system, particularly in the scope of supplementary insurance, has been announced for many years now. Currently, the spending of Poles from their own pockets amounts to about 33% of all health expenses and this places Poland a little above the EU average. Simultaneously, the majority of health care services covered from private resources is financed on the basis of fee for service, i.e., payment for particular services, including medication, parapharmaceuticals and diet supplements. In total, these expenses reach 19 billion PLN (70% of the total). Over 85% of private resources is spent in this non-institutionalised way as out-of-pocket expenses<sup>29</sup>. When compared to other EU countries, Poland has a disadvantageous structure of private expenses for health care, since it is dominated by one-off expenses incurred directly from patients' pockets (Figure 12).

28. Apart from the public system in Greece, one will also find mutual organizations (in total around 110 000 insured parties), which are aimed only at specific professions (or trade unions). The biggest one, established in 1930, is the Mutual Health Fund of the NBG (National Bank of Greece) Personnel: <http://typet.gr/index.php/en/organisation>.

29. D.M. Fal, *Korzyści z rozwoju rynku dodatkowych ubezpieczeń zdrowotnych w Polsce*, „Wiadomości Ubezpieczeniowe”, nr 4/2013.

Figure 12. Population share (in %) owning a particular type of supplementary health insurance in Europe in 2008



Source: D.M. Fal, *Korzyści z rozwoju rynku dodatkowych ubezpieczeń zdrowotnych w Polsce*, „Wiadomości Ubezpieczeniowe”, nr 4/2013

It may be observed that in this case, mutual insurance could become a key solution for health insurance, as only this can guarantee a non-profit type of activity based on social solidarity and the dispersion of social risk. An additional aspect supporting mutual insurance in this area is the desire to provide the highest quality of customer service and constant social supervision through the co-participation of members in managing mutual insurance. A role model for the activity of mutual insurance in the system of health insurance could be the experiences of other countries, but also the well-functioning “Flandria” Association of Mutual Help established in 1997 in Wrocław<sup>30</sup>.

Mutual insurance is also active in the private pension system, most often as TUWs or so-called benefit societies:<sup>31</sup>

- Benefit societies (mutual insurance societies) are active in, for instance, Hungary, Greece and Spain, where they are created by trade unions or employees (sometimes co-financed by employers) and, next to private pensions, may offer additional services designed for the elderly;
- German or Danish pension funds, for example, can also take the form of mutual insurance societies. In Finland, private pension insurance (the equivalent of the second pension scheme in Poland) is almost completely run by mutual insurance societies.

The reform of the social insurance system implemented in Poland in 1999 was based on the motto “security thanks to diversity”. The third pillar of this system was voluntary forms of additional saving for future pensions. With respect to diversity in Poland, practically no solutions connected with mutual insurance in the second pillar (the allowed organizational forms of PTE managing an OFE are only joint stock companies) or third pillar (although for some time there was a clearly stated opportunity to create PPEs in TUV form, it was not taken and soon it disappeared from legal regulations).

30. Its members pay a premium (several dozen PLN) per year and have access to a discounted range of medical services from doctors, nurses etc. See: [www.flandria.kujawy.com.pl](http://www.flandria.kujawy.com.pl).

31. D. Grijpstra, S. Broek, B. J. Buiskool, M. Plooj, *The role...*, pp. 35–36.

## 5. Mutual insurances in agriculture

Agriculture constitutes a branch where mutual insurance develops in a natural way for range of reasons:

- the impact of farmers on the creation and management of their "own" insurance undertakings (relatively high autonomy and self-government of farmers – associations, cooperatives etc., well-known and present among farmers for many years),
- smaller problems with information asymmetry and moral hazard which characterize agricultural insurance<sup>32</sup>,
- low costs, a "not for profit" attitude
- relatively high flexibility in undertaking new risks
- flexibility in assessing premium
- the high potential for the extension of insurance scope (due to non-final premiums).

Mutual insurers are a very important part of agricultural insurance on the German or French market. In Austria, an agricultural insurer who insures 85% of acreage<sup>33</sup> acts in the form of a TUW. In some member states, mutual insurance in agriculture is realized in the form of *mutual funds*. Such institutions have a separate organizational and legal frame of business activity, dedicated to the agricultural sector<sup>34</sup>. A *Mutual fund* assumes the collection of premiums in periods of prosperity so as to use them in worse times thanks to the cooperation and self-government of farmers. These funds play a mainly stabilizing role, they often concern unpredictable events which are impossible or hard to insure against, and their aim is to reduce fluctuation of certain parameters (income, profit) between particular periods.<sup>35</sup>

The innate aversion of Polish farmers to accept solutions imposed externally was caused a crash in the 90s when people stopped insuring their property and crops. Currently, as insurance has become obligatory in this sector, nearly 90% of all farm buildings and almost 90% of farmers have agricultural third-party insurance. Though the law imposes obligatory insurance of crops, only 10%–12% of farms have such insurance (this constitutes about 30% of total acreage). Simultaneously, only about 5% of farm animals are insured. One may point to several reasons for this situation: the low income of (particularly small) farms, increasing insurance costs caused by negative selection, information asymmetry and the high costs of damage settlements, the low awareness

32. See M. Janowicz-Lomott, K. Łyskawa, *Kształtowanie indeksowych ubezpieczeń upraw oparte na indywidualizmie w postrzeganiu ryzyka przez gospodarstwa rolne w Polsce*, Prace Naukowe Uniwersytetu Ekonomicznego we Wrocławiu, Wrocław 2015, nr 371, pp.123–136, available at <https://www.ceeol.com/search/article-detail?id=284862>.

33. Die Österreichische Hagelversicherung was established in order to offer agricultural insurance as a TUW by such insurance undertakings as Allianz, Generali, Uniqa, WIG. For more, see <http://www.hagel.at/site/index.cfm?objectid=BC079761-C2B8-0A3F-02EFA831A5E4A9C5>.

34. M. Janowicz-Lomott, *Mutual fund jako forma zarządzania ryzykiem w rolnictwie*, „Zarządzanie i Finanse”, 2013, nr 2 [5], pp. 63–77, available at [http://jmf.wzr.pl/pim/2013\\_2\\_5\\_6.pdf](http://jmf.wzr.pl/pim/2013_2_5_6.pdf).

35. M. Janowicz-Lomott, K. Łyskawa, The new instruments of risk management in agriculture in the European Union, *Procedia Economics and Finance*, Elsevier, vol. 9, 2014, pp. 321–330, available at <http://www.sciencedirect.com/science/article/pii/S2212567114000331> and P. Sulewski, E. Majewski, M. Meuwissen, Fundusze ubezpieczeń wzajemnych jako forma ograniczania ryzyka w rolnictwie, „Zagadnienia Ekonomiki Rolnej”, nr 2/2014, pp. 127–144.



of the usefulness of insurance among farmers, and the insufficient interest in agricultural insurance among commercial companies.

At the same time, it is in agriculture where, unlike in other business activity, one may observe the process of taking mutual decisions and undertaking organized actions. These include five areas and concern various forms of business activity associated with the preparation and sale of food products, such as<sup>36</sup>:

- 1) supply — in resources for food production and the functioning of farms,
- 2) production — producing agricultural products, feeds and other food products,
- 3) manufacture — manufacturing agricultural products and preparing them for sale,
- 4) services — offering various services (mechanical etc.) which facilitate agricultural activity
- 5) sales — preparing food products for sale, adjusting them to market and quality requirements as well as running joint sales.

The cooperation of farmers has always been supported by cooperatives, social organizations, the local community and also agricultural policy. An example of such action is the support for agricultural producer groups<sup>37</sup> and their functioning within the EU Common Agricultural Policy (Council Regulation (EC) No 1698/2005 of 20 September 2005 and Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 December 2013). In Poland, there are over 1300<sup>38</sup> agricultural producer groups with varied organizational forms (associations, cooperatives, etc.) which are associated with different forms of agricultural activity.

The Polish countryside is one of the areas which has undergone remarkable development since Poland's accession to the EU. Mutual insurance has certain traits which could overpower commercial insurances in rural areas and, at the same time, create a complex system of farm protection (including against the effects of events which are hard to insure from the market's perspective) and an economic basis for improving the standard of living in the country. Of special meaning in this context, from both a social and economic aspect, is the self-government of local rural communities. Also, one should stress the significant role of educational activities realized by various institutions and organizations functioning in these areas.

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36. A. P. Wiatrak, *Grupy producenckie jako forma więzi w agrobiznesie*, „Problemy Zarządzania”, vol. 13, no 1 (50), p.l., Wydział Zarządzania UW, DOI 10.7172/1644 9584.50.11, pp. 182–196.

37. Formal definition of an agricultural producer group was formulated in the Act of 15 September 2000 on Agricultural Producer Groups and Associations and on amendment of other acts (Journal of Laws No 88, item 983 as amended) “Natural persons, organizational entities not having legal personality which run a holding in the meaning of tax legislation, natural persons conducting agricultural activities falling in the scope of special divisions of agricultural production may form groups of agricultural producers in order to adjust agricultural production to market conditions, improve the effectiveness of farming, develop production plans (with special attention paid to their quantity and quality), accumulate supply and organize sales of agricultural products as well as protect the natural environment”.

38. According to the list available on the website of the Ministry of Agriculture and Rural Development, there were 1308 as of 31.03.2016.

## Conclusions

Solutions based on insurance mutuality may be attractive not only in the aforementioned cases, but also in every area of the insurance market. On the global and European market, TUWs are present in life insurance (particularly in the case of long-term saving insurance), household insurance (transport, flat insurance etc.) and are offered for entrepreneurs.

In Poland, a cyclical, increasing and decreasing, interest in insurance mutuality can be observed. This results from the fact that the insurance market is characterised by recurring phases of soft market, also called a buyer's market, and hard market, or seller's market, which are associated with changes regarding premiums, profitability or insurance capacity. In the soft phase, the supply of insurance protection decreases and consequently prices increase (irrespective of the ratio of claims); this makes insurance conditions less favourable for the insuring parties<sup>39</sup>.

As a result, there are often discussions regarding lower prices, higher predictability in the scope of risk acceptance and assessment as well as greater stability of insurance protection conditions. Expectations connected with savings for financing the effects of fortuitous events and changes of their financing by greater stability in the scope of insurance protection, often its increase, lead to the pursuit of a new organisational and legal form of insurance. As a result, mutual insurance has become an attractive alternative to commercial insurance in many areas (property insurance for entrepreneurs, third-party liability insurance for professional groups etc.).

Looking for alternatives to commercial insurance in Poland has become clearly visible as a consequence of hospital activity (the issue of insurance protection regarding civil liability of a hospital institution as well as medical liability). Although the obligation for medical insurance has been suspended, medical institutions are still responsible for malpractice. In effect, the medical world has voiced the need to create their own TUW (Wielkopolska, private hospitals, Podlasie)<sup>40</sup> and as a result, PZUW TUW was established (at least this was the original intention in the preliminary phase of its creation). In the case of hospitals insured in a TUW, it is easy to implement the system of risk management and monitor medical malpractice in accordance with models already present in other countries.

When comparing the Polish market with more developed insurance markets, one may arrive at the conclusion that the very possibility of acting in the form of a TUW allowed by the law is insufficient. It is necessary to form proper insurance policy and initiate additional state activity expressed in the form of new legal, organizational and financial solutions that will support the functioning and development of TUWs.<sup>41</sup>

Another condition of their development is the widespread awareness and concept of mutual insurance. The absence of TUWs on the insurance market (formally since 1952, in practice since 1939)

39. P. Manikowski, *Cykle ubezpieczeniowe w gospodarce rynkowej. Pojęcie cechy i struktura*, Poltext, Warszawa 2013, pp. 24–29.

40. *Powstanie Towarzystwo Ubezpieczeń Wzajemnych „Szpital Wielkopolski”*, „Rynek Zdrowia”, 23 lipca 2013, M. Janowicz-Lomott, *TUW dla szpitali – szanse i zagrożenia*, „Menedżer Zdrowia”, 2012/6.

41. M. Janowicz-Lomott, *Polityka instytucji Unii Europejskiej wobec towarzystw ubezpieczeń wzajemnych* [in:] *Dylematy teorii i praktyki ubezpieczeń*, eds. W. Sułkowska, G. Strupczewski, Poltext, Warszawa 2015, pp. 109–120.

has caused this lack of awareness regarding the idea of mutuality. Moreover, the atomisation of social life, in particular the lack of unions and activity in local communities, seem to pose a problem.

Overcoming this barrier seems possible only when the model of the welfare state is replaced with a responsible liberal state which creates a frame for active, social citizenship. Increased social foresight and resourcefulness should lead to the development of mutual insurance in Poland, since mutuality is nothing but an element of civil society aimed at the cooperation of various non-governmental institutions and organisations. Therefore, social education, which will stimulate the development of mutuality, must be based on three basic assumptions: allowing each individual to take care of their future, helping in the organizing of social relations, and initiating active participation in social life.

Mutual societies should be regarded as institutions of public law since, despite their commercial insurance activity, they also protect economically weaker social groups and often try to implement socio-economic roles assigned to bodies of the state authority [such as, for instance, protection against the effects of natural disasters].

Moreover, mutual insurers bring benefits to the insurance market and strengthen its competitiveness. Their different ownership structure allows them to focus mainly on the needs of their clients (offering high quality products at good prices), and not to act only in the interest of shareholders. As a result:

- such insurers may focus on long-term strategies of activity and act in accordance with balanced rules,
- the economy and insurance market benefit thanks to a range of organisational structures and management methods.

Nonetheless, a major barrier to the development of mutual undertakings is the new system of the assessment of their solvency – Solvency II, as it equalizes the rules of functioning and capital requirements for commercial and mutual undertakings, not making any distinction between the varied rules of their functioning.

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## **Towarzystwa ubezpieczeń wzajemnych w Polsce – obecna sytuacja, niewykorzystane szanse i możliwości rozwoju (wybrane zagadnienia)**

*Charakterystyczną cechą rynku ubezpieczeniowego na świecie jest obecność dwóch odrębnych koncepcji prowadzenia ubezpieczeń - komercyjnej i wzajemnościowej. Artykuł jest próbą odpowiedzi na pytanie, czy towarzystwa ubezpieczeń wzajemnych mają szanse na rozwój na polskim rynku ubezpieczeń. W pierwszej części pracy przeprowadzono analizę aktualnej sytuacji ubezpieczycieli wzajemnych w Polsce i Europie. W drugiej części autorka przedstawiła niewykorzystane dotychczas możliwości rozwoju i potencjalne obszary dla działalności ubezpieczeń wzajemnych w Polsce.*

**Słowa kluczowe:** towarzystwo ubezpieczeń wzajemnych, rynek ubezpieczeń, ubezpieczenia rolne, ubezpieczenia w JST, zabezpieczenie społeczne.

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