PEAK INSIGHTS 2018

Relevance of Mutual and Cooperative –
Lessons learned from developed Europe and Asia

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Foreword from CEO

This third edition of Peak Insights is dedicated to Mutuals and Cooperatives and Community based Organisations (MCCOs). Insurance originates from the idea of a mutual support against unforeseen events. This concept of mutuality is not new to society and is a basis to build a stronger community to guard against poverty. From that starting point, MCCOs have become major contributors to social stability and economic development and for that reason, they have developed to become major market participants in the insurance industry.

Many of the MCCOs have long operating histories. Their reputation and proximity to members are strong reasons for their longevity and sustainability. Today, MCCOs are facing an increasingly challenging operating environment and stringent regulatory requirements, yet some of the MCCOs in developed Europe and Asia have managed to stand out from the crowd. This report aims to look into how these MCCOs remain relevant to their members and the community while being profitable and financially strong.

Peak Re was established with the objective of protecting our communities and we work with our business partners to achieve these goals. We support our clients by offering effective risk solutions and through sharing of well-researched insights and expertise for a more efficient use of capital.

We hope this publication provides useful insights, in particular around the subject of MCCOs looking to preserve their mutual and cooperative status and for those aiming to introduce the model in new way or applications.

Franz Josef Hahn

Chief Executive Officer
Peak Reinsurance Company Limited

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Executive summary

Mutuals and Cooperatives and Community based Organisations (MCCOs) are initially non-profit organisations which have supported economic development and social stability. Their rise in popularity was built around relevance and simplicity of purpose to members, long before the existence of a social welfare system. Today, while social welfare is common in developed countries, MCCOs still have a role to play as supplement to the social welfare system and to commercial insurers.

In most markets, MCCOs are major market participants of the insurance sector. They continue to gain popularity – which highlights the solidarity and sustainability concepts behind it. As they help members in risk prevention and after an unforeseen event, MCCOs are viewed to be good corporate citizens. This attribute, in return, positively contributes to their reputation and market presence. MCCOs are not only relevant to members, but also to employees. Size is a potential constraint to transparency between MCCOs and their members and employees. Hence, MCCOs need solutions to remain agile in addressing social and economic changes and adapting to regulatory trends. Good and effective governance is one of the several ways to address this potential issue. It is essential to stay connected with relevant parties and to meet performance targets by generating income to build capital reserve, as MCCOs are subject to regulatory supervision just like their commercial peers.

Also, stringent capital requirements could lead MCCOs to search for external capital or contingent capital to meet solvency requirements. Third party capital includes reinsurance capacity, subordinated debt and equity. Unlike their commercial peers, MCCOs have greater difficulty to issue subordinated debt and raise equity, due to the lack of permanent capital as they are member based mutual organisations. For those who are seeking capital, a proven track record of operating performance is some of the aspects that external investors would consider. Again, governance is intended to safeguard the longevity of the organisations, therefore, good and effective governance is viewed as a means to attract external capital.

This report aims to understand how MCCOs can remain sustainable and financially sound; and how they remain relevant to society while addressing regulatory requirements and potentially external investors. Our intention is to support their development as MCCOs have proved more suitable to meet specific needs in certain circumstances.

1. MCCOs are relevant and trusted by society

Mutuals and Cooperatives and Community based Organisations (MCCOs) have played a key role in meeting society's needs and expectations. Their ability in adapting to change is proven by their longevity and market presence in our industry and it also acknowledges their relevance and trust from members and employees. Their adaptability can be in the form of the straight forward and simple nature of the products or cheaper pricing for members. It can also be the perceived benefit(s) of motivating employees to support the business expansion.

1.1. MCCOs have long operating history and sizeable market scale

Most MCCOs were established or legally recognised over the past two centuries **(exhibit 1)**. Clearly, they were formed by communities to support one another when the social welfare and/or insurance market did not provide adequate solutions. Because of the purpose they have been established for, MCCOs are naturally trusted and relevant to communities.

Exhibit 1: Establishment period of mutuals and cooperatives domiciled in developed Europe and Asia and listed on Global 500 by ICMIF

Number of organi-sations		Before industrial revolution	Industrial revolution	Great Depression to WWI	During WWI	Between end of WWI and beginning of WWII	During WWII	End of WWII to First oil crisis	Oil crisis to collapse of Soviet Union	Collapse of Soviet Block to nowadays	Total	Average age
48	France		17%	13%		19%	6%	19%	15%	13%	100%	83
35	Germany		29%	43%		26%			3%		100%	129
20	Japan			20%		5%	10%	40%	25%		100%	73
20	UK		55%	30%		15%					100%	137
16	Netherlands		25%	6%		19%		25%	13%	13%	100%	92
16	Denmark		6%	19%	6%	13%		25%	13%	19%	100%	81
15	Spain		7%			40%	7%	27%	13%	7%	100%	74
10	Finland		10%	40%				30%	10%	10%	100%	88
8	Sweden		50%	13%	13%			13%	13%		100%	136
5	South Korea							40%	40%	20%	100%	42
5	Norway	20%		40%				20%		20%	100%	130
4	Italy		50%	25%				25%			100%	141
3	Belgium			67%		33%					100%	106
3	Switzerland		67%	33%							100%	160
208	**Total**	**0%**	**21%**	**22%**	**1%**	**16%**	**3%**	**18%**	**11%**	**7%**	**100%**	**95**

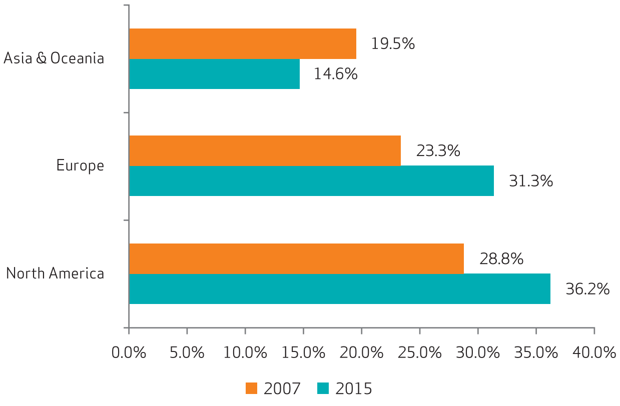
Source: ICMIF (2017), Global 500 2015 and Peak Re findings

Looking at their growing presence in matured markets in general, MCCOs continue to be relevant today. In developed Europe, their success can be measured by growing market share and increasing membership **(exhibits 2 and 3)**. The exception of Asia & Oceania in terms of market growth is primarily driven by the Japanese MCCOs. In fact, premium written by the Japanese MCCOs accounts for 80% of the mutual premium in the region.

Japan has undergone structural changes of the economy, demography and society. According to the Japanese Statistics Bureau, the average monthly disposable income of a household with at least a member working was JPY 376,576 in 2016 down from JPY 383,960 in 2011. With less available income, households shift their saving preference to cash and cash equivalents, to cheaper life products **(exhibit 4 and appendix 1)** and medical protection. In response, cooperatives launched life insurance with lower sum insured.

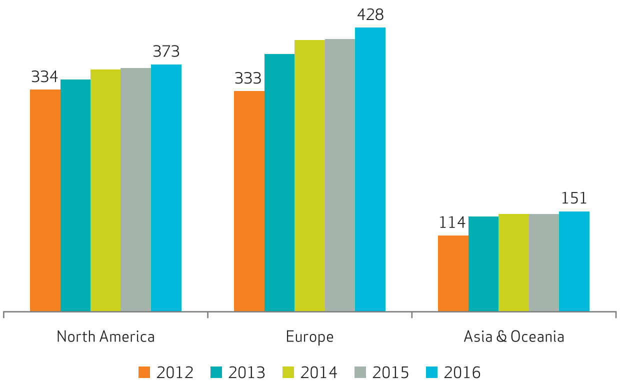
As a result, cooperatives sold more policies and attracted more members. In-force policies reached 61.87 million and 4.74 million in 2016 for life products and annuity from 61.20 million and 4.69 million in 2012 respectively according to the Japan Cooperative Insurance Association Incorporated. Also, the number of members increased from 76.8 million to 78.8 million within two years from 2014 to 2016.

Exhibit 2: MCCO insurers' market share by region



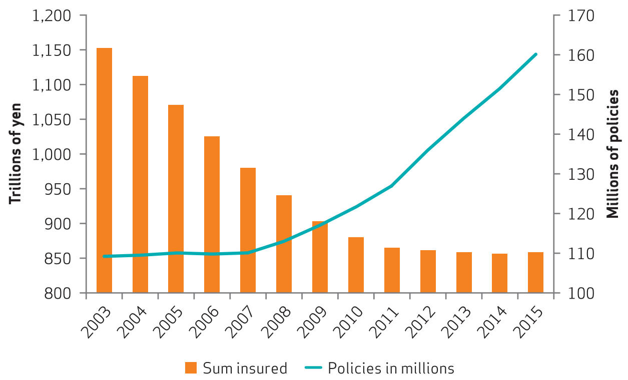
Source: ICMIF (2016), Global Mutual Market Share 2015

Exhibit 3: Number of members by region (in millions)



Sources: ICMIF (2015, 2016, 2017), Global Mutual Market Infographics & ICMIF (2012, 2013, 2014), Global Mutual Market Share Reports

Exhibit 4: Sum Insured and number of individual in-force life policies in Japan



Source: The Toa Reinsurance Company, Limited (2017), Japan's Insurance Market 2017

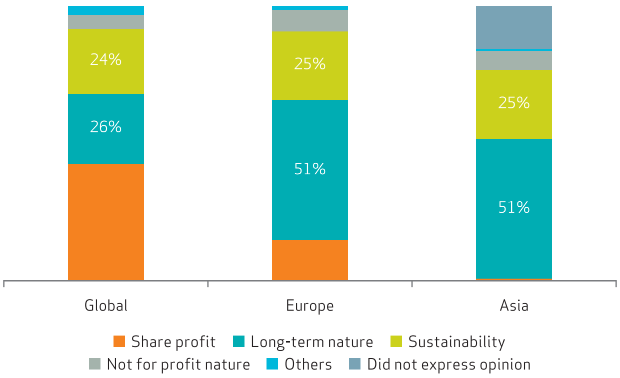
1.2. MCCOs are engaged and trusted by the public…

Beyond pure claims payment, MCCOs provide education on prevention, financial and material aids to members after a catastrophe. For instance, members of the Japan Cooperative Insurance Association have paid condolence money to families in addition to claims payment. They have paid JPY 1.2 trillion to families affected by the Great East Japan Earthquake 2011 (insurance claims and condolence money combined). In 2017, Zenkyoren provided free tarpaulins to its policyholders whose houses were damaged, and free temporary housing for 8 months to those whose houses became uninhabitable. Since 2008, Zenrosai held "Bosai Cafe" (Disaster Prevention Cafe) to raise the public awareness on how to minimise damage from disaster.

In addition to commitment, members recognise the long operating history of MCCOs and contribution to the society **(exhibit 5)**. They also view these non-profit organisations as good corporate citizens for giving back to the society. Therefore, the public views the goals of the organisations to be in line with theirs — fuelling a motivation to participate in the organisation's activities **(referring to "belonging" in exhibit 6)**. In addition, the public rates positively the MCCOs' agility to cope with changing needs which is referred as "innovation". In Finland, 60% of the public has a positive image of cooperatives compared to 47% ten years ago according to a study from the Confederation of Finnish cooperatives (Pellervo) in 2017. Finns rated highly their agility, refunds and profit sharing mechanism, geographical proximity as well as products and services offered. Also according to the study, 90% of the interviewed adults are members of a cooperative in 2017 compared to 84% in 2007.

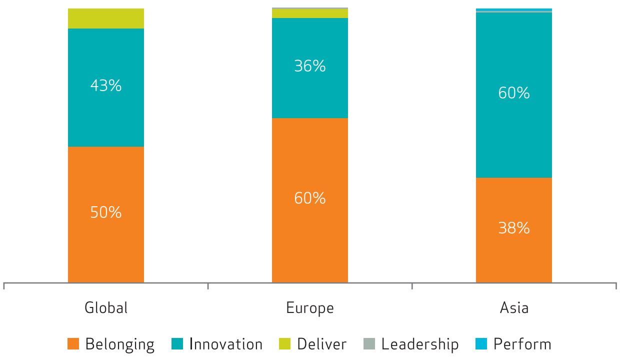
The recognised values of MCCOs favourably contribute to trust facilitating transactions and information sharing from members. However, trust needs to be constantly reinforced requiring manpower to deliver and communicate results and actions taken in addressing social issues. Therefore, engaging employees in the development of MCCOs is a key part of its strategy.

Exhibit 5: Most visible values of the mutual and cooperative



Source: ICMIF (2013), Global Reputation Report

Exhibit 6: Mutual and cooperative' strengths

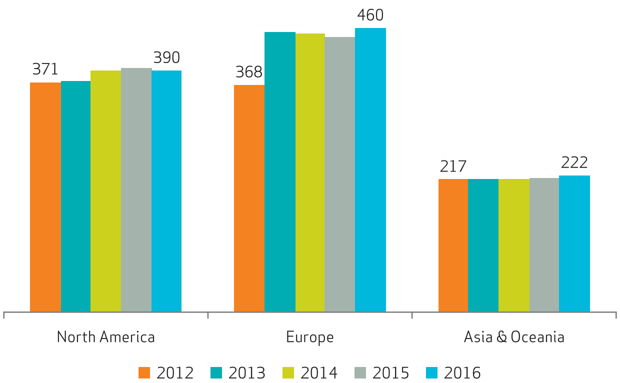


Source: ICMIF (2013), Global Reputation Report

1.3. … thanks to engaged employees

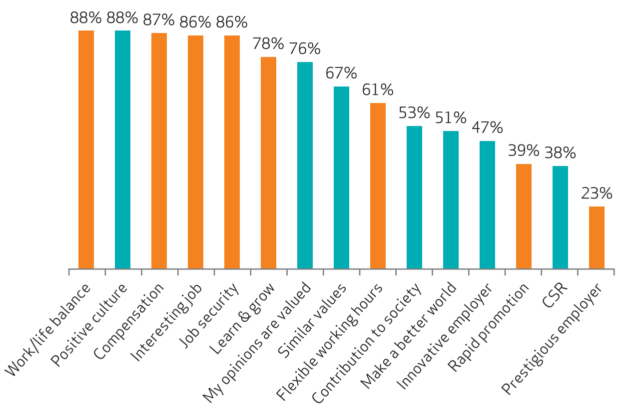
MCCOs also contribute to the society by creating job opportunities **(exhibit 7)**, while their mission and values could be a few of the many key elements to attract talents. Indeed, the sense of community, shared goals and values are highly rated by employees, same as for opinions being valued **(exhibit 8)**.

Exhibit 7: Number of persons employed by MCCO insurers (in thousands)



Sources: ICMIF (2015, 2016, 2017), Global Mutual Market Infographics & ICMIF (2012, 2013, 2014), Global Mutual Market Share Reports

Exhibit 8: Essential or very important criteria for a job from workers viewpoint



Source: Net Impact (2012), Talent report: what workers want in 2012 – Executive summary

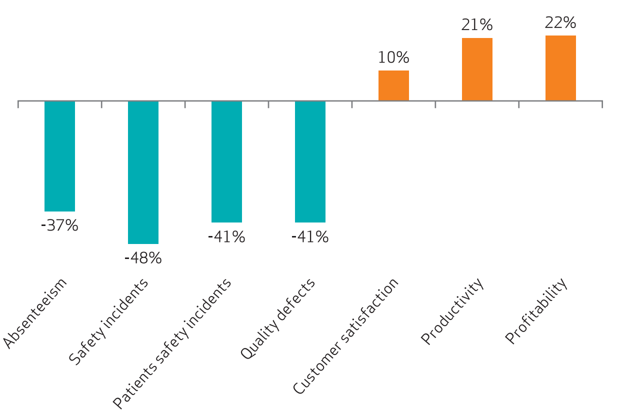
Note: CSR stands for Corporate Social Responsibility

Engaged employees can achieve better performance, so that businesses can obtain greater customer satisfaction, higher revenue and profitability **(exhibit 9)**. Therefore, with engaged and enthusiastic employees, MCCOs can focus and better serve members' needs, giving them a further competitive advantage of being close and trusted by communities. This greater focus on members is a key element to engage members and maintains MCCOs' sense of purpose.

Otherwise, they would suffer a lack of participation from members, such as expressing less opinions and organisations will start to become similar to their commercial peers.

Management of MCCOs values their employees' opinions and would keep them motivated so as to preserve the mutuality principle and values. Also, guided by values rather than rules, employees can gain in responsibility.

Exhibit 9: Employee engagement and business outcomes



Source: Gallup (2013), How employee engagement drives growth
Note 1: these are the differences in percentage point between work units in top-quartile in employee engagement and bottom-quartile ones.
Note 2: the study was based on 192 organisations in 49 industries and 34 countries.

2. MCCOs remain agile against challenges

MCCOs operate as human-centric models. Since their business advantage is the solidarity concept, identifying the community's goals and needs are naturally part of their strategy. By being close to members and having engaged employees, MCCOs are more nimble to meet changes in demand. Nimbleness is important to their relevance and profitability, thus MCCOs have to maintain the engagement and trust from members and employees. This is currently done with digitalisation, giving more responsibility to employees and good governance.

2.1. Technology and work flexibility to better serve members

Although the MCCOs are naturally trusted by their members, it is still important for the MCCOs to continuously reinforce trust with them to maintain good relationship. MCCOs keep relationship strong with their members via leveraging on technology, to ensure information flow and communication with their members are timely, efficient, accurate and transparent.

Lack of communication could be disruptive and affects trust of members, particularly when accurate information is not easy to separate from fake news. According to 2018 Edelman Trust Barometer Global Report, nearly two-thirds of people gets their news from the internet, 63% of the surveyed agreed that an average person has difficulty differentiating truth from rumours and falsehoods.

According to Colombus Consulting, French insurers invest in digital mainly to provide information on protection, regulations and risk prevention. The primary aim is to facilitate interaction and develop proximity. Mutual and social protection organisations have developed effective digital platforms. Of the top five digitally interactive insurers in France in 2016, two are mutual insurers and two social protection organisations according to the study. After a successful contact, prospects are directed to traditional channels to potentially reach policy closure. In addition to being a "touch base" platform, French mutual insurers are also well placed in online policy and claims management. Three mutual insurers are among the top five insurers having developed user friendly digital platforms to manage policy and claims. They are Amaguiz, MAAF and MATMUT. Amaguiz is a subsidiary of Groupama and only accessible online and on the phone. Similarly, mutual insurers dominate the top five list for product innovation. On the list, three are mutual groups and one is a social protection organisation.

Innovation is not limited to products. The French mutual insurer, MAIF, introduced a new working environment by allowing flexible arrangements such as flexible working hours and place of work in early 2018. This new initiative arose from two years of consulting project named "Oser" standing for "Organisation souple, épanouissante et responsabilisante" (translated into "flexible work schedule for fulfilled and empowered employees). The aim of the project is to better serve members and to improve performance. 731 employees out of over 7,000 volunteered to the project. They submitted 578 suggestions of which 360 were retained and used a base to negotiate with trade unions. Suggestions have to meet three criteria: members' satisfaction, mutual insurer's performance and employees' empowerment. The annual working hours of 1,540 per year was untouched and is less than the legal one of 1,607 (calculated based on 35 working hours per week). This project is now on-going for a period of five years.

2.2. Ability to raise capital thanks to proven profitability

Following the global financial crisis, regulators steadily implemented more stringent requirements and market participants have to find alternative financial solutions to meet increased solvency requirements. These requirements can be met by purchasing more reinsurance, issuing debt instruments or enlarging the capital base. Among the three options, reinsurance is surely the easiest and fastest solution for solvency relief. External capital must be, of course, qualified as capital under the regulatory framework.

Unlike their commercial peers, MCCOs' capital is basically funded by received premium and retained earnings. MCCOs have no permanent capital because in theory, members can withdraw their contribution anytime. This feature is a key barrier to accessing third party capital market; although regulators do not encourage easy withdrawal of contribution. Nevertheless, MCCOs with a track record of good performance would still be able to attract investment from external parties. Since rated subordinated debts are even more attractive to investors, MCCOs who have ability to issue such debts will have greater advantage in raising funds **(exhibit 10)**. Indeed, unrated financial instruments are generally restricted by regulation or by internal policy.

To support small MCCOs, the European Union reserves exclusion to full implementation of Solvency II (chapter 1, section 2 of Directive 2009/138/EC). Insurers not writing liability, credit and surety with annual gross written premiums of less than EUR 5 million and gross technical provisions of less than EUR 25 million, are excluded from the framework. In addition, under Directive 2014/51/EU, each member state defines reporting frequency and information to report accordingly to the nature, scale and complexity of the business risks. However, the government shall ensure the approach does not threaten financial stability, and eligible entities do not exceed 20 % of the national (re)insurance market.

If they have external investors, MCCOs need to meet capital market governance and disclosure standards. In revisiting the governance and ownership structure, maintaining the identity and principle of mutuality of MCCOs should be of top priority. Therefore, MCCOs must maintain the controlling right to prevent non-member investors from exercising their influence on the organisation. Some large MCCOs establish non-operating holding structures. Its function is to attract external capital and then downstream it to operating entities. Other large MCCOs would raise capital directly through their subsidiaries which they keep the legal control.

Exhibit 10: Composition of total equity and debt-to-capital ratio of some largest MCCOs in insurance (2014)

	Debt		Total equity composition	
	MCCOs with rated debt	Debt-to-equity	Third-party capital/equity	(Member contribution, Retained earnings & reserves) /equity
Belgium	**1**	**23.33%**	**6.58%**	**96.71%**
Ethias	Yes	27.60%		100.00%
P&V		19.07%	6.58%	93.42%
France	**6**	**12.43%**	**3.06%**	**97.55%**
Acmn	Yes	7.71%	3.89%	96.11%
Ag2R La Mondiale			10.79%	89.21%
Covea	Yes	9.25%	0.57%	99.43%
Groupama	Yes	31.99%	1.40%	98.60%
Macif	Yes	8.12%	1.53%	98.47%
Macsf				100.00%
Maif Group	Yes	0.36%	4.61%	95.39%
Matmut			1.44%	98.56%
Natixis	Yes	17.14%	0.25%	99.75%
Smabtp				100.00%
Germany	**2**	**19.03%**	**19.35%**	**93.55%**
Barmenia Versicherungen				100.00%
Devk Versicherungen				100.00%
Gothaer		29.06%	0.16%	99.84%
HDI (Talanx)	Yes	26.69%	38.54%	61.46%
Kravag Versicherung	Yes	1.34%		100.00%
Volkswohl Bund Versicherungen				100.00%
Italy	**1**	**13.32%**	**9.25%**	**93.83%**
Cattolica Assicurazioni			18.14%	81.86%
Unipol	Yes	13.32%		100.00%
Societa Reale Mutua Di Assicurazioni			0.36%	99.64%
Japan	**2**	**9.54%**	**7.49%**	**93.57%**
Fukoku Life	Yes	15.15%	1.12%	98.84%
Meiji Yasuda Life			0.13%	99.87%
Nippon Life	Yes	3.92%	0.33%	99.66%
Sumitomo Life			0.26%	99.73%
Zenkyoren			42.83%	57.17%
Zenrosai				100.00%
Japan Co-op Insurance Consumers' Cooperative Federation			0.27%	99.73%
Netherlands			**0.19%**	**99.90%**
Achmea B.V.			0.19%	99.81%
Zorgen Zekerheid				100.00%
Norway				**100.00%**
Gjensidige Forsikring				100.00%
Spain			**17.53%**	**82.47%**
Mutual Madrilena Automovilista			17.53%	82.47%
Sweden			**2.66%**	**98.67%**
Folksam			2.66%	97.34%
Länsförsäkringar				100.00%
Switzerland	**1**	**3.78%**		**100.00%**
Mobiliar	Yes	3.78%		100.00%
UK	**2**	**20.33%**	**20.82%**	**79.18%**
Bupa	Yes	18.83%	0.46%	99.54%
Liverpool Victoria	Yes	30.12%	40.52%	59.48%
Old Mutual Financial Network			19.55%	80.45%
Royal London Group		12.03%	43.52%	56.48%
Co-operative Insurance			0.05%	99.95%
Grand Total	**15**	**15.30%**	**9.54%**	**93.56%**

Source: Filene Research Institute (2015), Survey of Co-operative Capital

2.3. Good and effective governance for relevance and profitability

Good and effective governance is essential to preserve the identity of MCCOs. It ultimately relates to the organisation's ability to stay relevant, trusted and be sustainable. Governance for MCCOs must be structured in a way to hear members and employees' voices as it shows how much the management cares about the future.

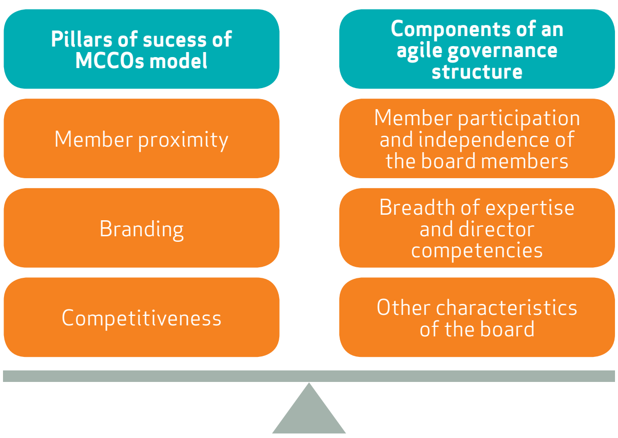
Like their commercial peers, MCCOs must generate profit and be financially viable. Platypus Asset Management studies the relationship between governance and performance of companies listed on Australian Securities Exchange from 2001 to 2016: firms with strongest governance report annual returns outperform those with weak governance by 7.4%. Also, they experienced lower price volatility compared to companies with weak governance by 7.3% per annum. Therefore, companies with sound governance are observed to deliver higher returns with lower risks.

Good and effective governance is a means to attract third party capital because it supports the argument that MCCOs are sustainable. Good governance must allow members and employees to supervise management's work. An example would be inviting members to nominate board members and board members must be independent from senior management to avoid conflict of interest.

Effective governance must promote transparency. Board members should represent members and employees' views and similarly they should also keep members and employees' informed about the organisation's decisions and strategic developments. Also the length of service and member's profile of the board must be a good reflection of the community served. Each member should have one vote in theory. In a competitive society, the board has to be quick in decision making. To accelerate the process, large MCCOs would reduce the board's size to a manageable level.

Since not all board members have necessary knowledge to govern effectively, MCCOs must supplement their skills with independent advisory committee(s). In Japan, Nippon Life and Sumimoto Life have an expert advisory committee to supplement the board's expertise as a way to ensure the efficiency of the board. Otherwise, it could result into slow decision-making which would negatively impact the competitiveness of MCCOs.

Exhibit 11: MCCOs principles vs governance principles



Source: Ernst & Young (2012), Enlightened Co-operative Governance – Balancing Performance with Broader Principles in Co-operatives and Mutuals

Effective governance: the case of HDI Group and Talanx AG (Germany)

HDI Group is a mutual insurance group which services the communities through Talanx AG and its operating entities. Talanx AG is a listed financial holding majority owned by HDI Group. The group defines good governance as responsible management and control of undertaking to support sustainability. Therefore, it pursues policies to increase value and to accumulate earnings. The aim is to safeguard Talanx AG's independence and mutual identity when the latter calls for a capital increase.

In creating sustainable value, HDI Group focuses on enhancing trust from business partners, employees and the public. Pragmatic governance structure is adopted as it attaches great importance to the efficiency of the work performed by the board of management and supervisory board. It also attaches great importance to the boards' cooperation with employees through open and transparent communication. These principles are also reflected in the governance of Talanx AG.

The supervisory board has the right to appoint and dismiss the members of the board of management. Chairmen of both boards are in constant contact to discuss about strategy, business development, risk management and compliance. The supervisory board comprises of members who are elected by members at the general meeting. Talanx AG has a supervisory board of 16 members among which half are elected by shareholders and the other half by employees.

In short-listing the potential candidates to the supervisory board, selection criteria include knowledge, skills, professional experience and potential conflict of interest. Diversity of background is then included in the final list of candidates. To ensure independence, the supervisory board should not have more than two persons who had previously served as members of the board of management.

To deal with complex issue(s), committees are formed to supplement the expertise of the supervisory board such as personnel committee, finance and audit committee, nomination committee, and standing committee. Trainings are also provided to the supervisory board to enhance the members' skills and knowledge.

Conclusion

Without doubt, MCCOs have historically proven their worth to society when the social welfare system is less developed and insurance cover is unaffordable or fall short of meeting needs. MCCOs were formed by communities which mean they are established by people who share the same interests and trust one another as a natural consequence. Subsequently, their relevance and social benefits are recognised by the social groups they serve when established.

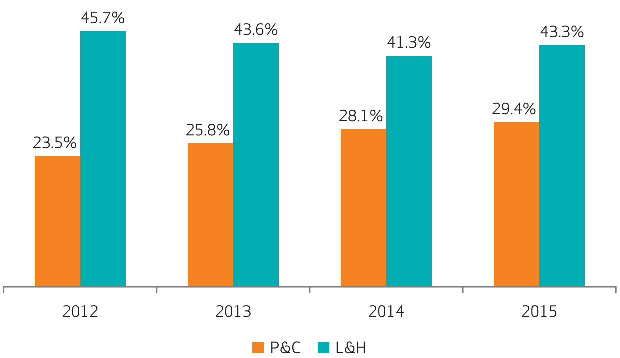
As the operating and regulatory environments evolve, MCCOs need to maintain proximity with members, continue to be relevant and engage employees. Their long history and significant market presence acknowledge their ability to adapt to changing environment. MCCOs have invested in improving services by using technology and providing a flexible working environment. Other means to sustainability is governance. In thinking about governance, management puts the mutual principle as priority. The unitary concept continues to develop trust and engagement from members and employees. It promotes member solidarity and participation to the organisation activities and decisions.

Stringent capital requirement in recent years has pushed market participants to seek capital solutions. Like their commercial peers, reinsurance is an easier and faster solution for solvency relief. Commercial entities access third party capital solutions such as debt instruments and share issuing. As MCCOs do not have permanent capital, it is more difficult for them to access to the capital market. Track record of profitability and retained earnings along with sound and efficient governance become key elements to attract external investors. Thus, the successful MCCO generates positive returns continuously and maintains its identity thanks to sound and effective governance.

Appendix 1: Japanese cooperatives reshape life market

According to our analysis, it is estimated that Japanese cooperatives attract 12% and 30% of the life and non-life market premium in 2015 respectively **(exhibit 12)**. In the past few years, cooperatives attract more members as they better address needs. Long-term economic slump and volatility in the Nikkei stock market adversely impacted the available income of the households and changed their savings preference **(exhibit 13)**. Also, an ageing population, smaller family size, medical and long-term care costs are other reasons for the shift of preference to medical products from pure life products **(exhibit 14)**. Cooperatives can offer cheaper life products and partner with medical bodies which helps to lessen the financial burden for medical care for their members.

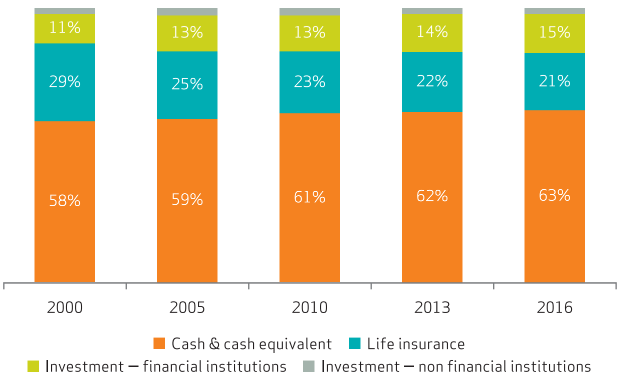
Exhibit 12: Estimated market share of Japanese MCCOs



Sources: The Life Insurance Association of Japan (2017), Life Insurance Fact Book 2017,
Japan Cooperative Insurance Association Incorporated (2018), Cooperative Insurance in Japan – Fact Book 2017,
National Federation of Workers and Consumers Insurance Co-operatives, 2015-17 Annual Reports,
Meiji Yasuda Life Insurance Company, 2013-2016 Annual Reports,
Nippon Life Insurance Company, 2013-2016 Annual Reports,
Fukoku Mutual Life Insurance Company, 2013-2016 Annual Reports,
Sumitomo Life Insurance Company, 2013-2016 Annual Reports,
Asahi Life Insurance Company, 2013-2016 Annual Reports &
The General Insurance Association of Japan, General Insurance in Japan – Fact Books 2012-2017

On the Property & Casualty side, cooperatives have gained market share from 23% in 2012 to 30% in 2015 **(exhibit 12)**, mainly due to significant price adjustment. Prices improved by 69% and 48% for fire and personal accident respectively within five years. Nevertheless, the community still purchases from cooperatives for the simplicity of products, claims evaluation and payment.

Exhibit 13: Investment portfolio of Japanese households with at least two members



Sources: Statistics Bureau, Japan Statistical Yearbooks, section Family Income and Expenditure
Note: "Investment – financial institutions" meant investment made through a financial institution, while "Investment – non financial institutions" refer to investment made through other chanels than financial institution.

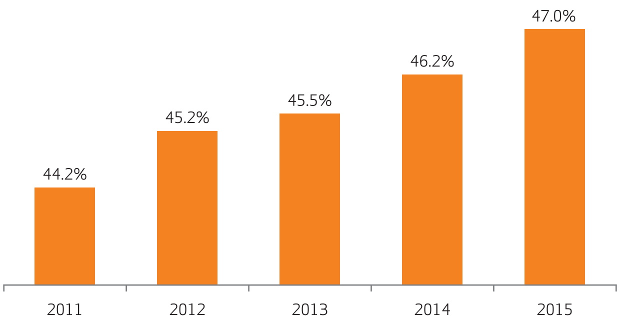
Exhibit 14: Purpose of purchasing life & health insurance

Source: The Life Insurance Association of Japan (2015), Overview of Life Insurance Industry in Japan

Appendix 2: French mutual insurers remain popular despite challenges

French mutual insurers capture almost half of market premium **(exhibit 15)**. They continue to gain traction despite operating in challenging environment. Commercial insurers conducted aggressive business strategy looking to diversify the underwriting book. The government supports competition for more affordable insurance products. Furthermore, majority of mutual insurers are subject to Solvency II which adds to the financial strain.

Exhibit 15: Market share of mutual insurers in France



Source: AMICE (2018), Facts and figures: Mutual and Co-operative Insurance in Europe

Mutual insurers and social protection institutions play a great role in Life & Health (L&H). The life segment itself generates 86% of French L&H premium in 2016 with the remaining from health insurance according to the Fédération Française de l'Assurance. Mutual insurers have greater footprint in L&H from around 35% in 2012 to around 40% in 2016. This momentum is greatly driven by higher returns compared to commercial insurers for life products **(exhibit 16)**.

Exhibit 16: Median yield from life insurance (Euros funds)

	2017	2016	2015	2014	2013	2012
Mutual	1.87%	2.05%	2.72%	2.92%	3.22%	3.27%
Stock	2.08%	2.16%	2.52%	2.80%	3.08%	3.20%
Social protection	1.69%	1.69%	2.20%	2.50%	2.85%	2.78%

Source: Peak Re's assessment based on L'Argus de l'Assurance (2013-2017), Life insurance: all yields for Euro funds. Samples of around 175 funds each year.

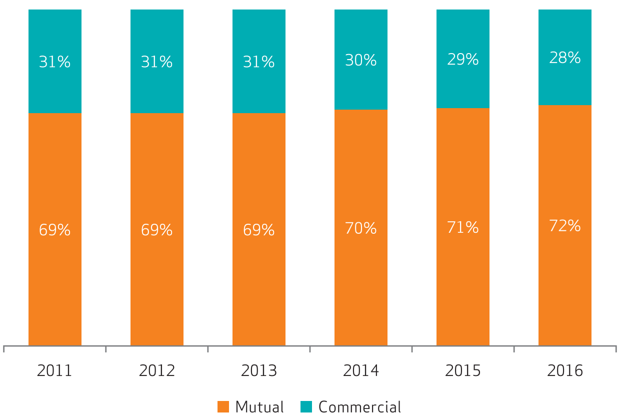
The Property & Casualty (P&C) book of mutual insurers is also heavily composed of individual risks. Individual risk weights for 63% of the French P&C market premium in 2016 according to the Fédération Française de l'Assurance. The individual P&C book is mainly motor and home representing 56% and 31% of the overall individual P&C premium. Based on statistics from l'Argus de l'Assurance, we estimate mutual insurers capture more than half of the French non-life premium. The market presence is pretty much stable between 2012 and 2016. We also estimate mutual insurers to write around 60% of the individual motor market premium and 70% of home market premium in 2016.

Appendix 3: Finnish cooperatives improved member's daily life

The success of cooperatives in Finland can be traced back to the end of 19th century. Poverty and tension with the Russian Empire (and later the Soviet Union) drove the eagerness to gain autonomy and independence. Cooperatives were viewed as a means to achieve these goals. Pellervo, the confederation of Finnish cooperatives was formed in 1899 to promote the cooperative model. The collapse of the Soviet Union has led to an economic crisis in early 1990s in Finland due to significant drop of export to the Soviet Union. Cooperatives were again viewed positively by the government to revive the economy.

Insurance cooperatives have significant market presence in both non-life and life. They write over 70% of market premium in P&C and almost 40% in life in 2016 **(exhibit 17)**. The two largest participants capture 54.4% of the non-life premium in 2016. They are two cooperative groups, namely OP Financial and LocalTapiola. They captured 28.6% and 25.8% of the non-life market premium in 2016 respectively. On life segment, OP Financial and LocalTapiola are the two major cooperative players attracting 22% and 9% of the life market premium in 2016 respectively. OP Financial is the largest financial group in Finland. It groups over 200 independent cooperative banks in addition to its own banking and insurance subsidiaries. LocalTapiola mainly offers insurance protection and asset management services.

Exhibit 17: Non-life market share in Finland by type of underwriter



Sources: Finance Finland (2012-2017), Finnish Insurance in 2011 to 2016

As part of its support, the Finnish government adopts laws favourable to cooperatives establishment and survival including financial contribution and strict rules on surplus distribution. It also supports hybrid model like listing subsidiary on stock exchange under condition cooperative groups maintain majority control. Insurance cooperatives are governed under the Finnish Co-operatives Act. The act was revised in 2014 providing guidance to share subscription and exit to members and non-members. It also provides guidance on governance to preserve the cooperative's philosophy. However, it is criticised for being close to the Limited Liability Companies Act which may lead to loss of cooperative identity. In practice, Finland has experienced increasing number of cooperatives operating in hybrid model, with the cooperatives keeping the majority control over the hybrid entity.

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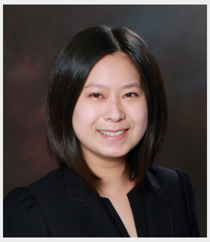

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