

Mutualism and Cooperation

Demutualization: For Better or For Worse?

In this edition of *Reflets SSQ*, I was planning to talk about the different kinds of cooperatives when a document from the International Cooperative and Mutual Insurance Federation fell into my hands. I know it will spark your interest since it touches on a subject that's undeniably close to the SSQ reality: demutualization.

In Quebec, there's been a lot of talk about demutualization, especially after Industrial Alliance decided to demutualize. SSQ, also a mutual company, has decided to reaffirm its mutual status. Perhaps you've wondered about this decision. It may seem to contradict the demutualization trend not only hitting Canada, but many countries with major mutual companies. The ICMIF document in question attempts to answer these questions by showing the findings of a comparative study, conducted by the European associative branch (ACME) of the ICMIF, on the financial results of mutual and stock companies. ACME surveyed 24% of the companies in the European insurance market over a five-year period comparing mutual and stock companies. It concluded that mutual companies are more competitive, creative and customer-oriented.

The in-depth analysis of 97 insurance companies (life or not) in 11 western European countries challenges the most common arguments in favor of demutualization and shows, supported by facts and figures, that mutual companies generally perform better than stock companies. This destroys one of the most commonly held myths, which is that mutual companies are not cost effective. The study includes key financial indicators, whose findings reveal greater growth among mutual companies and better ratios with regard to company expenses. The document indicates that there is no substantial difference in companies' profit-making ratios and their asset yields.

What's more, the analysis underscores the leadership of mutual companies in product creation and innovation, ethical-type investments and social initiatives that are considered progressive. The document goes on to explain the long-term consequences of demutualization, comparing the promises made by the supporters of this option and the post implementation period. Promises of improved effectiveness, greater flexibility and better benefits to policyholders and employees are not always kept by demutualized companies. In fact, quite the opposite is true. It would appear that mutual companies present better offers to insured participants and, more widely, to the society as a whole.

Although it is European, this study has found an echo in Quebec where the impact of the demutualization of several large companies has had an effect on the cost and the quality of group plan services.

In an article entitled *Hausse de coûts et réduction des services* from the newspaper *Les Affaires* of May 26, 2001, the director of the Montreal office of Buck Consultants is quoted as saying that the recent demutualization of major insurance companies has caused an increase in the costs of social benefit plans. According to him, "the poor