How will Sweden adapt to the new circumstances in Europe?

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To understand how Sweden — or rather, its major insurance companies — may adapt to new circumstances in Europe, one needs some basic knowledge of the Swedish insurance market and its recent development.

Until relatively recently, the Swedish insurance market could be characterized as a strictly regulated and closed market, dominated by an oligopoly of five major actors, having 80 - 90% of both life and non-life markets.

While the non-life sector had seen considerable product development and modernization, the life sector was quite old-fashioned and had not seen any of the innovations of variable annuities, universal life or unit-linked products. It was difficult, to say the least, to start new operations or for foreigners to enter the market.

The recent past in Sweden

Major changes began in 1985 with the removal of the ”need” principle for starting new companies/operations (the ”need” principle meant that a new company or area of operation could receive approval only if it could be convincingly shown that there was a need for such an additional company or operation on the market). Shortly after, the easing of currency regulations made it easier for Swedish companies to expand or establish operations abroad.

Since then, the Swedish insurance industry — while still retaining its oligopolic structure — has undergone a series of changes at an astonishingly rapid pace.

One can look at recent developments from a precise, chronological, perspective or from a more general, global, view of major tendencies. Let’s look at the latter:

☐ Captive solutions for larger clients — industries or other types of clients with significant premium volumes — have increased greatly, and thereby reduced premium volumes to traditional insurers. Although captives have only been permitted in Sweden since the early 1980’s, Sweden has now become one of the most ”captive-dense” markets in the world (most of the Swedish owned captives are ”off-shore” ones).

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☐ Brokers were nearly non-existent in Sweden until the Insurance Broker Act went into effect on 1st January 1990. There are no definitive statistics available but it is generally estimated today that brokers place roughly 30-40% of industrial risks, 20-25% of other commercial risks and 25% or more of life policies by amount.

☐ Unit-linked policies were first allowed in 1990; by 1993 they already accounted for 58% of life sales by amount in Sweden and a great majority of the foreign purchase of life policies.

☐ Group homeowners policies, which were introduced on a small scale and under great controversy in the early 1980's, have now been widely accepted and cover more than 30% of the market.

☐ "Bankassurance" has definitely arrived in Sweden; all major banks have either an own insurance company or collaboration with one, and over 15% of domestic life premiums 1993 went via banks. Several insurers have also bought or established banks.

☐ Foreign purchases of life policies by Swedish residents, have mushroomed from an insignificant amount to probably more than half the total by 1993 of all purchases of life policies by Swedish residents.

☐ All major Swedish insurers have entered into more or less firm alliances in Europe (or even beyond) — more about this in a separate chapter.

☐ Direct-selling and/or low price niche insurers have rapidly established themselves and made their presence felt on the market.

☐ After a period of an increasingly speculative economy, Sweden has suffered its most serious economic downturn since at least the Great Depression. The downturn began in 1990 and has caused a five-fold increase in unemployment, a depression in the real estate and building branches, the first failures of insurance companies (Njord and Swedish Credit) since the beginning of this century, and a SEK 60 billion rescue by the state of the banking industry. Since being set "free" to find its own level in November 1993, the Swedish krona has lost some 30-35% in value against most major currencies. Budget deficits and the national debt have soared to record levels. (Some first signs of an economic upturn have appeared since mid-1994, but the crisis is far from over.)

☐ Besides the bankruptcies of two insurers, all other major insurers have also been adversely affected. As a result, there have been major changes in corporate managements and in strategic directions. The "name of the game" today is reengineering, cost reductions and concentration ("back to basics").

☐ All Swedish insurers have withdrawn from the credit insurance market and the gap has been filled by two specialist insurers from Holland and Germany.

☐ Two of the five major insurers have decided to withdraw from reinsurance operations while the other three have all reduced their risk exposures and volumes of operations.

☐ The country's economic crisis has led to a public debate about the extent and financing of the comprehensive Swedish social security system. Some changes have been made and others are being considered, which can mean new market opportunities for private insurers.

Most significant of the changes so far agreed on is the reform of the national pension system. The system will in future provide a reduced level of benefits. The benefits will be contribution-, rather than salary-related and will mainly be ”pay-as-you-go” financed but with an element of premiumreserve.

☐ Besides the effects of market forces on the Swedish insurance ”oligopoly”, the entry of Sweden first into the European Economic Area and now the European Union also implies a strict application of EU competition rules and far less room for collaboration and restrictive practices.

Looking back at the above catalogue of profound change in just the last few years, it is hard to believe what we have been through and in such a short time. And it's far from over — we are just beginning to understand what a truly ”single market” can imply.

The Swedish market today (1993 figures)

The Swedish market today is still dominated by an oligopoly of five major insurers, but the oligopoly is losing strength and cohesion through many of the phenomena referred to above: deregulation, brokers, bankassurance, foreign competition, new products, new actors, directselling and EU-competition rules.

Life insurance

”Labour market insurances” (i.e., collectively bargained insurances for group life, sick pay, etc) had premiums totalling SEK 23,9 billion. This was nearly as much as the sum of traditional life insurances (SEK 22,9 billion) and unit-linked insurances (SEK 4,2 billion). While traditional life premiums declined by 6% from the previous year, unit-linked premiums increased by 57%. It may also be interesting to put the foregoing figures in relation to the total cost, SEK 302 billion, of the national social security system — for public pensions, health, occupational injury, unemployment and parental insurance.

New life premiums for policies sold by companies in Sweden were SEK 2,5 billion for traditional policies and SEK 3,4 billion for unit-linked policies. In addition, and thanks to tax advantages, persons resident in Sweden paid over SEK 5,6 billion for policies bought from abroad, mostly unit-linked. The latter figure is a low estimate since far from all transactions are reported to the authorities. The first estimates for 1994 are that SEK 8-10 billion went abroad.

Market shares, in percent of premiums, are shown below for 1993, with comparative figures for 1990 shown in parentheses:

Skandia	26.5	(34.0)
Trygg-Hansa	21.4	(27.3)
Folksam	16.9	(10.8)
WASA	10.3	(15.4)
bank-owned companies	14.1	(6.4)
other companies	10.8	(6.1)

Non-life direct insurance

Total premiums were SEK 31,4 billion and the largest branches were:

Motor	32.0%
Commercial & real estate	26.0%
Householder and homeowner	21.2%
Employers' no-fault	6.1%
Accident & health	5.1%
Marine	3.5%.

Market shares in 1993, in percent of premiums, were as follows, again with 1990 in parentheses:

Länsförsäkringar	21.0	(17.6)
Folksam	20.3	(20.6)
Skandia	18.9	(20.2)
Trygg-Hansa	16.5	(19.4)
WASA	7.6	(9.2)
other companies	15.7	(13.0)

Foreign, or foreign-owned, companies in Sweden have a market share of less than 3% but their premium volume has grown rapidly in recent years.

How to maximize opportunities offered by an expanding European Union

As I said earlier, all major Swedish insurers have entered into more or less firm alliances in Europe, and sometimes even beyond.

Skandia

Skandia is Sweden's most multinational insurer. In fact, it no longer calls itself a Swedish insurer, but rather ”an international insurance group with the Nordic countries as its home market”. Skandia is a multiline insurer in the Nordic area.

Beginning in October 1990, Skandia's top management and media attention were focused for nearly three years on a battle for control of the company that involved a top Swedish bank and other Nordic insurers. The issue was finally resolved in the early summer of 1993 and Skandia remains owned by mostly Swedish investors and, through voting-right restrictions on shares, effectively controlled by its management.

Vesta, Norway, and Konglige Brand, Denmark, are wholly owned and have been integrated into the group. Within the three-country area, Skandia works with real integration — of strategies, data processing systems, products, production, etc. Skandia and Pohjola, Finland, have a cross-ownership of some 10% in each other; integration exists outside of the Nordic area at the office level, and industry insurance is handled together in an international network which includes Wassau, USA (owned by Nationwide), and Royal Global, UK.

Direct interests outside of the Nordic area, have greatly expanded in — and increasingly focused on — financial services, especially in the area of savings products. Non-life and reinsurance operations outside of the Nordic countries have been continuously reduced for some time.

Trygg-Hansa

Trygg-Hansa is for several reasons the hardest of the five large Swedish insurers to comment on. After de-mutualization in December 1989, it has been involved in more major new ventures or strategies in the last few years than anyone else. To say the least, these have generally given disappointing results and led to radical changes in direction. The company has quite recently appointed a new CEO.

At the same time as this talk is being drafted at the turn of the year, the sale of Trygg-Hansa's dominant position in Home Insurance, USA, has just taken a new turn, from an agreement with a group of American investors to an agreement with Zürich Insurance. It is of course impossible today to know if the latest agreement will be implemented or replaced by still another. Or, if it is implemented, what the consequences will be for Trygg-Hansa's strategic direction especially in terms of recognizing and maximizing the opportunities offered by an expanding European Union.

An existing collaboration for Trygg-Hansa is the one with Sampo Industriförsäkring in Finland. The collaboration began with Industriförsäkring in July 1987, well before it became a part of the Sampo group. In addition to close collaboration in Finland and Sweden, the alliance involves a joint presence in Amsterdam, Frankfurt and London and a jointly owned company, Hansa Kindlustus, in Estonia, with a branch office in Latvia.

Länsförsäkringar

Länsförsäkringar (LF) is not a single corporate entity as such, but rather a group of 24, local and independent mutual companies that together own a service company, LFAB, with subsidiaries. The local companies operate within defined geographic areas and collaborate nationally in business development, marketing strategy and common services.

The group's federative structure has made it at times slower than others to take decisions about changes in strategic direction. That this is not always a disadvantage may be illustrated by the fact that LF was not as adversely affected as others by the worst excesses of the speculative economy that characterised Sweden — and Swedish insurance — in the late 1980's.

Traditionally, the LF-companies have a close tie to the rural areas and the farming community. The group as a whole has also been the perhaps least "international-minded" among the major Swedish insurers.

In the early 1990's, LF developed a Nordic-based collaboration with like-minded companies in Denmark, Finland and Norway. This collaboration, partially prompted by Skandia's purchase of Vesta in Norway and by Folksam's Nordic Alliance, encompassed several large projects but has now largely come to an end. The collaboration did lead to a smooth and easy adjustment of claims for each other without taking payment, as well as to working together in reinsurance.

LF's new venture into Europe is through the ARINA-Alliance of nine insurers in nine different European countries. This alliance was begun in 1991, and is of such interest that it is the subject of a separate point on the programme of this conference.

WASA

WASA was created in 1987 by four smaller companies that later merged into the holding company. The group has found it difficult and timeconsuming to integrate the products, systems, field forces, etc. of the original companies and to attain a competitive cost level. These difficulties, plus poor results and reducing market shares, have led several times to postponement of plans to de-mutualize WASA and to introduce its shares on the stock exchange.

Eureko B.V. was established in March 1992 with WASA as one of the four original partners. The other three, Friends Provident in the UK, AVCB in the Netherlands and Topdanmark in Denmark, were joined by BCP/Ocidental in Portugal in November 1993. A German partner is likely during 1995.

Cross-ownership is achieved through the jointly owned holding company, Eureko B. V. based in Amsterdam. It is a small fully staffed unit dedicated to identifying and implementing activities between the partners. Partners are required to pool their international operations in the holding company and receive shares in Eureko B. V. in return.

Eureko is represented in Ireland, Spain, Belgium, Luxembourg, Italy, Canada and the USA. Eureko's vision is to be established through a partner or subsidiary on every market in Europe (and even on others).

Eureko works actively with increasing cross-cultural understanding, including a programme of management rotation. Its Board of Directors, which includes all of the CEOs, meets monthly.

WASA regards its involvement in Eureko as a both defensive and offensive strategy. Through cross-ownership, companies are protected from takeovers; by creating a functioning alliance, one can expand into new markets. It is usually difficult to get alliances to function well, and joint ventures rarely last more than five years. The cross-ownership in Eureko provides therefore a necessary "glue" between the partners.

Folksam

Folksam is closely linked to the consumer co-operative and trade union movements in Sweden. Though a mutual, the control is vested in these organizations who send policyholder delegates to the Annual General Meeting and have seats on the Board of Directors.

Through international co-operative organizations, Folksam has long had active international relationships while restricting direct insurance activities to the Swedish market. Since the mid-1960's, Folksam has been actively involved in efforts to promote and develop local co-operative insurance activities in the developing countries of Africa, Asia and Latin America and, more recently, in the newly independent countries of Eastern and Central Europe.

In late 1988, Folksam obtained a full license for credit insurance and began actively underwriting such business in February 1989, especially credit guarantees. No new business has been underwritten since February 1991, but the short period of operations led to large losses, both in direct and indirect insurance.

A Nordic Alliance was entered into late in 1990 by Folksam and Alka, in Denmark, and Samvirke, in Norway. The Alliance involves cross-ownership and a large number of collaborative projects were entered into. A few led to concrete results, but the remainder have been put on "hold" due to changed circumstances.

Earlier in 1990, Folksam together with three continental European insurers — P&V in Belgium, Macif in France and Unipol in Italy — founded a European holding company, EURESA. The objective of EURESA is to strengthen the presence of the partners on the European market as a whole, in particular within the EU's inner market and on the East European market.

Through EURESA, the partners wish to especially support the development of the social economy ("economie sociale") within the European countries. Real activity began first after the employment of a managing director at the beginning of 1993. In 1994, a fifth partner, Maif in France, joined EURESA. Folksam, in the meantime and because of its revised priorities, has remained in EURESA but taken a less active role.

Besides ongoing projects to increase practical collaboration — and find possible synergies — between the partners, EURESA has up to now assisted the trade unions in Poland to start an insurance company, assisted an existing co-operative insurer in Greece, and started a jointly owned life insurer, EURESA Life, in Luxembourg which plans to work in many markets.

In terms of following, and even influencing, developments affecting us in the European Union, Folksam relies heavily on its engagement in ACME, the Association of European Co-operative and Mutual Insurers. ACME has 28 member companies or groups of companies from 17 countries — the members' premiums together amount to about 8% of European insurance premiums. All the partners in EURESA are also members of ACME.

Realizing opportunities in the Baltic and Russia

Some of this has been touched on above. As a whole, the activities in the Baltic and Russia have been fairly limited.

Skandia

Skandia is involved indirectly through Pohjola in Estonia, Latvia and St. Petersburg. In Estonia, for example, Pohjola owns 29% of Seesam (45% owned by AIG, and the rest in Estonian hands), a company established in 1991 and now one of the better capitalized and more significant actors on the market.

Skandia reinsures the Swedish risks insured in Seesam. Skandia also indicates that it is looking at possible opportunities in Poland and the Czech Republic.

Trygg-Hansa

Trygg-Hansa, as noted above, is directly involved in Estonia and Latvia through Hansa Kindlustus, based in Estonia. The company was established in 1991 and is owned by Trygg-Hansa (50%), Sampo Industriförsäkring (42%) and an Estonian bank. As of May

1994 when I visited Tallinn, it was the other well capitalized and significant actor on the Estonian insurance market.

Sampo has a small operation in St. Petersburg, which gives Trygg-Hansa an indirect involvement in that market.

Länsförsäkringar

Länsförsäkringar has no direct involvements at present. It has had own contacts with some of the Baltic countries and its Nordic collaborator in Finland, Tapiola, has a small involvement in Russia.

The ARINA-Alliance has a ”greenfield” operation in Hungary.

WASA

WASA has no activities or plans at present in these areas but recognizes their significance for Swedish interests. However, they feel that they today lack the considerable management resources that one requires in order to accomplish anything. It is also necessary to have a long-term strategy if one gets involved at all.

Folksam

Folksam does not have any operations directly or indirectly in the Baltic or Russia, but has been involved through its membership in the CO-OP NETWORK for Co-operative Development in Eastern and Central Europe in providing technical assistance to co-operative and/or trade union movements in these countries that wish help in developing co-operative insurance activities. I myself have made short consultancy missions to Estonia, Russia and Bulgaria on behalf of the CO-OP NETWORK. Folksam itself has provided some assistance in Lettland.

Coping with increased competition on home markets

I think it in place now to reveal to you that in preparation for this address, I had contacts with highly placed colleagues at each of the other four major Swedish insurers. All were quite open and generous in sharing information with me and for that I am very grateful. Any errors in interpretation are of course my sole responsibility.

If there was any area in which my colleagues *might* have held back a little, it was in regard to the question of how to cope with increased competition on home markets. This slight feeling I got may have been caused by any one of several reasons: the time was short at the end of a lengthy discussion; it *is* a more sensitive area since we already think that we have a tough competition amongst ourselves and do not wish to assist anyone else in coping with the new competition; our concerns and thoughts are still quite general; we have not really given enough hard thought to what we will be dealing with.

Let me simply summarize the gist of what was said, without referring to particular companies:

☐ the Swedish oligopoly will not disappear for some time, but one must learn that the ”rules of the game” are radically different in an open market;

☐ the entry into the EU does not change things very much since the most important changes came into force with the EEA agreement on 1st January 1994;

☐ new competitors *are* on their way into Sweden;

☐ Sweden’s large insurers are vulnerable today since all are trying to consolidate themselves;

☐ the tax on investment yields is a major problem in life insurance and has already resulted in more than half of premiums going abroad — this may result in additional companies setting up offshore funds;

☐ the next real threat will be in automobile insurance, where deregulation will change the tariff structure and also make it easier to change insurers when one changes vehicles;

☐ to succeed on the market one must offer something additional or better — the new competition will not allow just ”following” the market;

☐ the best strategy is to be so effective that new actors will stay away.

A personal conclusion

I would like to conclude by making a personal reflection about the new circumstances in the European Union, not just in Sweden.

We are still a long way from the Single Market in the EU that has been the subject of so many conferences and discussions for so many years. Many major steps have been taken through the three generations of insurance directives and through the Accounts Directive that is now to be implemented.

True harmonization of markets will require not only that all the existing directives be implemented *and* interpreted in the same way, but also that other hinders to a ”level playing field” be removed. Not least important, of course, is the varying tax treatment in member states of insurance premiums, insurance benefits and of company investments and profits.

When the Single Market actually becomes a reality, I for one expect an entirely different competition than we ever have seen. Until then, all of the largest multinational insurers will continue to be just that: *multi*-national companies typified by having subsidiary companies in every state where they operate (and replicating all functions in each of the national subsidiaries). Their one advantage so far, and not unimportant, has been their economic might.

My prediction is that these *multi*-nationals will gradually transform into international companies and will thereby for the first time be able to use all the potential of their size and location in varying geographies: to, for example, place all investment functions in one location, all data processing in another, all claims processing of a particular type in a third, etc. Increased specialization and concentration should mean increased effectiveness and lower costs. Of course, other breakdowns then by function are possible.

How then will we others respond to this new competition? Can we adapt and make sufficiently effective the alliances that we are a part of? Or will some of us have to accept being niche players in order to survive?

As far as Sweden is concerned, the last five years or so have shown, if nothing else, that Sweden is quick and thorough when it comes to adapting to new circumstances/requirements. This is true of many sectors, including insurance.

A safe prediction for the future is that the Swedish insurance companies — and other actors on the financial markets — will be among the fastest to pick up whatever trends will develop in the Single European Market.

That at least a couple of the five major companies will have converted themselves (alone or in partnership with other European actors) into full-fledged international companies is fairly certain. More of an open question is whether the remaining companies will cease to exist, break up into niche companies and/or concentrate wholly on limited segments of the local market.