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"Swimming Against the Current" of Demutualizations in the 1990s and 2000s: The Case of the Private Statutory Pension Insurance Sector in Finland

"Nadar contra la corriente" de las desmutualizaciones en los años 1990 y 2000: El caso del sector privado de seguros de pensiones obligatorios en Finlandia

Antti Talonen, Jukka Mähönen

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Antti Talonen

University Researcher, University of Helsinki
Visiting Professor, University of Zagreb
antti.talonen@helsinki.fi

Jukka Mähönen[1]

Professor of Co-operative Law, University of Helsinki
Professor of Law, University of Oslo
jukka.mahonen@helsinki.fi

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[1] Jukka Mähönen is a Professor of Cooperative Law at the University of Helsinki Faculty of Law and a Professor of Law at the University of Oslo Faculty of Law. He is an principal investigator in Academy of Finland project Shaping, fixing and making markets via IPR: regulating sustainable innovation ecosystems (SHARE), leader of the University of Oslo research group Futuring Sustainable Nordic Business Models and deputy head of the University of Oslo research group Sustainability Law. He is also a work package leader in a Horizon Europe project Towards a New Zero Food Waste Mindset Based on Holistic Assessment (ToNoWaste). He holds LL.M. (Berkeley), M.Sc. (Econ.) (Turku), LL.Lic. (Turku), and LL.D. (Turku) degrees. Before coming to Oslo and Helsinki, he was a Professor of Civil Law and Dean at the University of Turku. In Helsinki he teaches cooperative law, corporate sustainability, law and economics and private global governance, and in Oslo law and economics and company law. His research interests are in company and cooperative law, securities law, accounting and auditing law, tax law and economic analysis of law. Recently he has worked with accounting and auditing, institutional investors, and sustainability. He is also looking for possibilities of new sustainable business models.

Abstract: The global insurance industry of the 1990s and 2000s witnessed a significant wave of demutualizations often regarded as a world-wide phenomenon. In this article, we describe the case of the Finnish private statutory pension insurance sector and the reasons why it eventually "swam against the current" by explicitly deciding to emphasize mutuals —that still today account for 96% of the particular sector in Finland and has ensured that the almost 150 billion euros of pension assets has stayed in control and in use of the Finnish people, organizations and entrepreneurs. As an empirical dataset, we analyze two interviews of high-level experts who participated in the working group drafting the guidelines for the Finnish Act on Pension Insurance Companies.

Keywords: mutual insurance, pension insurance, co-operatives, demutualization.

Resumen: La industria aseguradora global de las décadas de 1990 y 2000 fue testigo de una importante ola de desmutualizaciones, a menudo consideradas como un fenómeno mundial. En este artículo, describimos el caso del sector privado finlandés de seguros de pensiones obligatorios y las razones por las que finalmente "nadaba contra corriente", al decidir explícitamente hacer hincapié en las mutuas, que todavía hoy representan el 96% del sector particular en Finlandia y se han asegurado de que los casi 150 mil millones de euros de activos de pensiones siguieran bajo control y en uso del pueblo, las organizaciones y los empresarios finlandeses. Como conjunto de datos empíricos, analizamos dos entrevistas a expertos de alto nivel, que participaron en el grupo de trabajo que redactó las directrices para la Ley finlandesa sobre compañías de seguros de pensiones.

Palabras clave: mutualidad de seguros, seguro de pensión, cooperativas, desmutualización.

1. **Introduction**

Mutual enterprises as cooperatives, mutual societies and companies and credit unions have an important role in European economy, including the Nordic countries. Mutual enterprises' role and size vary country by country and industry by industry though. In insurance market, mutual societies account for 25 per cent of the European insurance markets. Almost 70 per cent of insurance companies in Europe are mutual societies[2] This is a high number taking in the consideration that the global insurance industry of the 1990s and partly 2000s witnessed a significant "wave" of demutualizations often regarded as a world-wide phenomenon. In the same time the Finnish society "swam against the current" and emphasized mutualization and mutual insurance company form in developing the statutory pension insurance system, organized through mutual pension insurance companies, created by a 1997 legislation.[3] Today, mutual insurers account for some 96% of the specific industry and hold almost 150 billion euros in investment assets. What has maintained unanswered until now is why was the mutual model seen as a viable model even in a situation when there was obviously pressure to consider other forms as well. Was the reason the legal form only or was there other reasons? As mutual pension insurance companies are one of the most important mutual enterprise forms in Finnish financial sector besides cooperative banks, this question is highly relevant for this special issue.

The aim of this article can be defined as *descriptive.*[4] We explore how the Finnish pension insurance sector came to emphasize the mutual model in organizing pension insurance companies. To describe the Finnish case, we start by presenting the development of the local statutory pension insurance sector and the regulation governing it (chapter 2). This is followed by an analysis of two expert interviews that enabled us to describe the specific (even hidden) reasons why the mutual model has been and is emphasized (chapter 3). Conclusions finalize the study (chapter 4).

Our article contributes to scientific discussion in several ways. Firstly, it increases, extends, and strengthens our understanding of the reasons why the mutual model has been seen as a rational and viable model in societies and why insurance industries in different parts of the world

[2] European Commission, Mutual societies, available at https://single-market-economy.ec.europa.eu/sectors/proximity-and-social-economy/social-economy-eu/mutual-societies_en

[3] Laki työeläkevakuutusyhtiöistä [Act on Earnings-Related Pension Insurance Companies], 354/1997.

[4] e.g. De Jong, A. (2022). Research in business history: From theorising to bizhismetrics. *Australian Economic History Review*, *62*(1), 66-79.

contain different organizational forms.[5] In this, qualitative empirical work that is based on the insights of the people working closely with mutual insurers has been scarce. Secondly, we provide the first presentation of the Finnish statutory pension industry and mutuals as a major part of it. This serves well the need of scholars who are willing to get to know the Finnish context in detail. Also, this provides a tool for scholars around the world who are about to do comparative research on mutuals in different countries and continents. Proper comparative research in the field is important since certain aspects of the legal definitions of mutuals as well as regulations related to them vary between countries and continents. [6] By utilizing the descriptive results of this case study, future research can proceed towards more theoretical considerations.

2. **The Finnish statutory earnings-based pension insurance system**

The Finnish earnings-related pension system is a special case among the European countries. A significant part of the Finnish statutory social security is organized via private pension institutions.[7] The system was introduced on 1 July 1962 that marked the establishment of the private sector's earnings-based pension insurance legislation, the Employees Pension Act.[8] Here, organization of pensions was delegated to earnings-based pension insurance companies, industry-wide pension funds and company pension funds.

[5] See e.g.: Dawson, M. M. (1917). Mutualization of Life Insurance Companies. *The ANNALS of the American Academy of Political and Social Science*, *70*(1), 62-76.; Mayers, D., & Smith Jr, C. W. (1984). Ownership structure and control: the mutualization of stock life insurance companies. *Financial Review*, *19*(3), 90-90.; Fletcher, L. P. (1966). Motivations underlying the mutualization of stock life insurance companies. *The Journal of Risk and Insurance*, *33*(1), 19-32.; Talonen, A. (2016). Systematic literature review of research on mutual insurance companies. *Journal of Co-operative Organization and Management*, *4*(2), 53-65.; Talonen, A., Mähönen, J., & Kwon, W. J. (2022). Examining the investment operations as a derived core function of mutual insurance companies: Research agenda and guide. *Journal of Co-operative Organization and Management*, *10*(1), 100168.

[6] cf. Krišto, J., Talonen, A., & Pauković, H. (2021). Analysis of community-owned mutual insurers' prospects of development in CEE countries: Outlining research agenda. *Risk Management and Insurance Review*, *24*(3), 243-261.; Talonen, A., Mähönen, J., & Kwon, W. J. (2022). Examining the investment operations as a derived core function of mutual insurance companies: Research agenda and guide. *Journal of Co-operative Organization and Management*, *10*(1), 100168.

[7] Hallituksen esitys 255/1996 vp eduskunnalle laiksi työeläkevakuutusyhtiöistä ja eräiksi siihen liittyviksi laeiksi [Government Proposal 255/1996 for an Act on Earnings-Related Pension Insurance Companies and Related Acts] p. 2.

[8] Työntekijäin eläkelaki [Employees' Pension Act], 395/1962.

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2.1. *Pension insurance companies*

Before 1997 there was no specific legislation on pension insurance companies. Legislation was introduced with the Act on Earnings-Related Pension Insurance Companies and partly by amendments to the general Insurance Companies Act.[9] Major reforms to Earnings-Related Pension Insurance Companies Act were introduced in 2008 with amendments to the Act[10] and a new Insurance Companies Act.[11] Finnish pension insurance companies are mainly taking care of statutory pensions of the private sector companies’ employees (including public universities and state-owned enterprises) as well as sole entrepreneurs. These *insured persons* (both legal and natural) account for approximately 70 % of the Finnish workforce under earning-related pensions.

According to the law in force, a pension insurance company can be either a limited company (unlisted or public) or a mutual insurer (a mutual pension insurance company).[12] The shareowners of the mutual companies are both the insurance buyers (employers) and the insured (employees), and in some cases the providers of the guarantee capital (in practice, nonexistent today). At the moment, there are altogether only four pension insurers in the market: Veritas (limited), Ilmarinen (mutual), Varma (mutual), and Elo (mutual). The three mutuals account for some 96 % of the market in terms of premiums.

Based on the strict social and public purpose of pension insurance companies, their activities are rather limited. It is only allowed to practice such insurance and reinsurance activities that are defined under the Employees Pensions Act[13] and Self-Employed Pension Act.[14] According to the legislation, insurance groups must keep pension insurance separate from their other business activities. Additionally, the assets as well as the accounting and annual reports of the pension insurer need to be maintained legally separate from the ones of the other companies that belong to the same company group.

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9 Laki vakuutusyhtiölain muuttamisesta [Act Amending Insurance Companies Act], 1062/1979.

10 Laki työeläkevakuutusyhtiöistä annetun lain muuttamisesta (Act Amending Act on Earnings-Related Pension Insurance Companies], 524/2008.

11 Vakuutusyhtiölaki [Insurance Companies Act], 521/2008.

12 Act on Earnings-Related Pension Insurance Companies section 1 subsection 1.

13 Työntekijän eläkelaki [Employees Pension Act], 395/2006.

14 Yrittäjän eläkelaki [Self-Employed Pension Act], 1272/2006

2.2. *Industry-wide and company pension funds*

Industry-wide pension funds differ from the pension insurance companies in that they are always employer- or field-specific. Thus, the members need to have either economic or functional connection. These institutions are governed by the Act on Pension Foundations and Pension Funds (946/2021).[15] In pension funds the decision-making power is practiced by the members (insured employees) and the partners (employers). There are altogether four Industry-wide pension funds in Finland (Apteekkien Eläkekassa, Eläkekassa Verso, Reka Eläkekassa and Valion Eläkekassa) and they handle only about 1% of all insured in the Finnish earnings-related pension system.

Company pension funds are founded and managed by one or more employers, with a purpose to offer pensions to the employees. These funds are also governed by the Act on Pension Foundations and Pension Funds (946/2021) and they handle only about 1% of all insured in the Finnish earnings-related pension system. The company pension fund is an independent entity and it differs from the industry-wide pension funds in that only employers have the possibility to exercise decision-making power. There exists three different kind of company pension funds —namely A, B, or AB. A-funds offer only occupational pensions, B-funds concentrate only in statutory pensions, and AB-funds offer both. The number of company pension funds has decreased during the last 20 years from 37 to 10[16].

2.3. *Pension insurance companies as part of the earnings-related pension insurance system*

2.3.1. Introduction and formation of pension insurance companies

A significant factor that differentiates pension insurance companies from other businesses, is that labour-market parties participate closely in developing the pension insurance system as well as manag-

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[15] Laki eläkesäätiöistä ja eläkekassoista [Act on Pension Foundations and Pension Funds], 946/2021.

[16] These are the following: Honeywell Oy:n Henkilökunnan Eläkesäätiö, Kontinon Yhteiseläkesäätiö, L-Fashion Group Oy:n Eläkesäätiö, Orionin Eläkesäätiö, Sandvik Eläkesäätiö, Sanoman Eläkesäätiö, Telian Eläkesäätiö, UPM Sellutehtaiden eläkesäätiö, Yara Suomen Eläkesäätiö ja Yleisradion Eläkesäätiö.

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ing and governing the pension insurance companies. All related issues have been agreed between the pension insurance companies and the labour-market parties. The first such contract was written and agreed upon in 19 March 1974 and related to the balanced participation of the employer and employee parties in the supervisory bodies and boards of the pension insurance companies.

The current pension insurance system was formed on 1 May 1997, when the Act on Pension Insurance Companies came into force. In December 1994 the Ministry of Social Affairs and Health invited then Director General in the Ministry, Dr Tarmo Pukkila to investigate how to ensure the functioning of the statutory pension insurance system, by identifying needs for immediate legislature changes as well as mid-term development needs. The mandate of Pukkila was to pay special attention to the needs to produce a separate legislation (act) to govern pension insurance companies. In addition, Pukkila was asked to consider the need to develop and strengthen the general principles of investment operations, as well as the independent governance and monitoring of pension insurance companies' investment operations. Also, additional consideration was needed related to the allocation of the insurer's assets between the owners and the policyholders. After Pukkila's report, the Ministry of Social Affairs and Health further invited then Board Member of the Bank of Finland Matti Louekoski to prepare a proposal to establish Act on Pension Insurance Companies in form of a draft bill (a government proposal).[17]

The aim of the Act on Pension Insurance Companies was to increase the independence of the pension insurance companies and their investment operations in relation to other insurers and banks as well as the owners. In addition, an important goal was to tighten the competence requirements of the managers in the pension insurers. After the Act came into force, all together four mutual pension insurance companies were formed: Varma (originally Varma-Sampo), Ilmarinen, Etera (merged with Ilmarinen in 2018), and Eläke-Fennia (merged with Elo in 2014). Currently, there are three mutual pension insurers (Varma, Ilmarinen and Elo) in the market with a market share of 96%. In addition to this, there is one investor-owned pension insurer, Veritas, that has a minor market share and insures mainly the Finnish-Swedes (Swedish speaking population in Finland).

[17] Government proposal 255/1996 pp. 7-8.

2.3.2. Special characteristics and nature of pension insurance companies

As mentioned above, the aim of the Act on Pension Insurance Companies was to increase independence of the actors. The Act separated the pension insurance companies accounts and functions from other insurers as well as political capital blocks (companies with links to political parties). Despite linkages with other actors in the financial market via cross-selling and -marketing of pension products, major pension insurance companies are legally independent mutual companies. This has emphasized the role the stakeholders, namely the insured (employees) and buyers of the policies (employers), and their representation in governing the pension insurers. However, and according to the principle of increasing independence, the ones holding a position on the board or supervisory body are not seen to represent the interests of the pension insurer, nor the interests of a specific stakeholder group. Throughout the years it has been recognized that the labour-market parties' interest towards pension insurers' investment operations has decreased, which has further increased the independence of the insurers.[18]

Furthermore, according to the Act, a pension insurance company needs to have permission from the Ministry of Social Affairs and Health if it wants to buy shares of another pension insurer, or to increase ownership over 10% of the shares or voting power. The aim of this is to ensure every pension insurer's independence to make their investment decisions. In addition, the managers of a pension insurer have the right to delegate decision-making power only to those who work in the same company. Moreover, only an independent outsider (person, actor) can be chosen to prepare investment decisions on behalf of the pension insurer.

In a mutual pension insurance company, the highest-level decision-making power is allocated between the buyers of the policies, insured, and the owners of the guarantee capital. According to the Act on Pension Insurance Companies, the shareholders of the company include the buyers, the insured, and if mentioned in the bylaws, the owners of the guarantee capital.[19] In all the major pension insurers, all these three stakeholder groups are defined as shareholders. The Act, however, lim-

[18] Sorsa, V.-P. (2011). Työeläkejärjestelmä ja finanssoitumisen haasteet [Pension Fund System and Challenges of Financialisation] in Johanson, J.-E., Lassila, J., & Niemelä, H. (eds), *Eläkevalta Suomessa* [Pension Power in Finland] [Elinkeinoelämän tutkimuslaitos ETLA: Helsinki] pp. 92-119, pp. 108-109.

[19] Act on Earnings-Related Pension Insurance Companies section 6.

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its the voting power of the owners of the guarantee capital, which cannot exceed the one of the buyers of the policies.[20] In addition, it is usually defined in the bylaws of the pension insurers that the insured are provided voting power that is based on their share of the company.[21] [22]

2.4. *Need for reform of the Act on Pension Insurance Companies in 2005*

In 2005, a working group led by then Deputy Governor of the Bank of Finland Matti Louekoski continued to consider the development and renewal needs of the Finnish Act on Earnings-Related Pension Insurance Companies. Louekoski suggested that if the starting point for developing pension insurers governance structure stems from the stakeholders' possibility to govern, guide and monitor the company, it is justified to consider the following: a) Is the annual general meeting of the company taking account (well enough) of the special characteristics and nature of a pension insurer, and b) Is there a need to reconsider the allocation of votes and decision-making power in the annual general meeting between the insureds, buyers of the policies and the owners of the guarantee capital, and c) Whether the organizational form of a pension insurance company should be regulated by law as mutual.[23]

According to Louekoski, several factors and the nature of the existing Act on Pension Insurance Companies would support the idea that the organizational form and regulations of the annual general meeting are developed towards the mutual model. This should be done so that the shareholders and decision-makers, per se, are the buyers of the policies and the insureds, and increased limitations for the owners of the guarantee capital and their power should take place.[24] Further, if the organizational form would not be regulated as mutual, even in case of the limited company the voting power should be directed also for the insureds and the buyers of the policies.[25]

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[20] Insurance Companies Act chapter 8, section 5, subsection 2.

[21] Act on Earnings-Related Pension Insurance Companies section 6 a.

[22] Louekoski, M. (2005). *Työeläkevakuutusyhtiölain uudistamistarpeet: Selvityshenkilön väliraportti* [Need to amend the Act on Authorized Pension Insurance Companies: Progress report by the Rapporteur ad int.) (Sosiaali- ja terveysministeriö: Helsinki) p. 31.

[23] Louekoski (2005) p. 31.

[24] Louekoski (2005) p. 31.

[25] Louekoski (2005) p. 32.

3. **The empirical interviews**

3.1. *Gathering the interviews*

To describe our case in detail, we conducted two expert interviews. Both anonymized interviewees took part in the above-mentioned working group of Deputy Governor Matti Louekoski in 2005. Being able to interview participants of this group enabled us to get access to insider views and discussions that led to the emphasis of the mutual model. The interviews took approximately 1-1,5 hour each and had semi-structured nature. The authors began the interview by explaining what the interview is about and that the aim is to understand the reasons why the mutual model was emphasized. After that, the authors gave the interviewees the possibility to describe their views rather freely and every now and then directed the conversation with thematic questions (in a semi-structured way). The results of the interviews are described and discussed next.

3.2. *Analysis, results and discussion of the interviews*

We conducted a thematic analysis for the interview data.[26] Accordingly, the authors worked with the data to identify so called first order concepts. These concepts refer to concrete reasons that were put forward by the interviewees. The first phase of the analysis formed altogether 9 concepts (See Table 1.). After identifying the first order concepts, authors worked together[27] to thematize these concepts under second order themes by finding similarities between the identified concepts.[28] This phase of the analysis produced altogether 3 themes. Throughout the process, authors reflected the data with earlier knowledge on mutual insurers. Thus, the analysis can be described as abductive.

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[26] Braun, V., and Clarke, V. 2006. Using thematic analysis in psychology. Qualitative Research in Psychology 3 (2): 77–101.

[27] Jonsen, K., and K.A. Jehn. 2009. Using triangulation to validate themes in qualitative studies. Qualitative Research in Organizations and Management 4 (2): 123-150.; Patton, M.Q. 1990. Qualitative evaluation and research methods. SAGE Publications, inc.

[28] Ryan, G.W., and Bernard, H.R. 2003. Techniques to identify themes. Field Methods 15 (1): 85-109.

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The following three subchapters present our analysis in more detail and discuss the results. The additional fourth subchapter is a separate one from our analysis regarding the reasons why the mutual form was emphasized, but sheds light on the fact why the limited company form was not eventually excluded from the legislation. This was also a topic that was brought up during the interviews and was seen by the authors as something that is important to report in this conjunction as well.

Table 1

Tentative framework and results of the analysis

Second order themes	First order concepts
Implementing the legally defined purpose of a pension insurance company	The legally defined purpose of a pension insurance company is stakeholder-oriented and emphasizes the benefits of the insureds (NOT investors of capital, that is the default defined purpose of a limited company in Finland)
	Stakeholder orientation has directed the public discussion towards mutuals as a stakeholder-owned company
Getting rid of the power games of the outsiders and stabilizing the system	Limited pension insurers used to be targets of corporate takeovers that put the assets of the insurers in danger and the pension system under great risk
	A need to diversify power in pension insurance companies effectively and get rid of the harmful power battles
	A need to create a model of pension insurer that does not cause scandals
	The mutual form stabilizes the pension insurers as well as the society in general
Getting the stakeholders involved in official structures	Idea was to officially ensure the voice of the insureds in the administration
	No possibility to ignore employers due to their traditional role in the system (e.g., company-wide funds)
	Efficiency of the system was ensured by offering employers patronage refunds if the annual year is profitable

3.2.1. Implementing the legally defined purpose of a pension insurance company

The refinement of the purpose of a pension insurance company came into force in January 2007.[29] Accordingly, the purpose of a pension insurance company is to "…handle the statutory pension insurance belonging to social security by managing the implementation of the statutory pension insurance in accordance with the laws… and the funds accumulated for the company for this purpose in a way that safeguards the benefits covered by the insurance."[30] By definition, the purpose emphasizes the interests of the beneficiaries, that is, the insureds. This idea is explained by the interviewee 1 who states:

> "The purpose of a pension insurance company is defined in the law and the idea is that the society safeguards the final principle (beneficiary) of the pension system —that is the insured (employee/entrepreneur). The idea is, that the insureds have deserved the pensions during their working life and these pensions need to be safeguarded". (I1)

Interviewee 2 supported this idea and added that pension insurance companies are always evaluated though this clearly defined purpose.

> "Laws on earnings-related pension insurance are not always that clear in everything. That's why the 'purpose' of a pension insurance company [defined in law] is so important and all the supervisory actions are reflected with it. This ensures that earnings-related pensions are seen and evaluated as part of the social security system". (I2)

As such, this strong stakeholder emphasis of the law has directed the focus of the organizational form discussion towards mutuals. The mutual form naturally enables the stakeholders' ownership of the company. It is important to ensure that the organizational governance represents and echoes the nature and characteristics of the law. This is in line with the traditional agency-theoretical thinking where a mutual

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[29] Laki työeläkevakuutusyhtiöistä annetun lain muuttamisesta [Act Amending the Earnings-Related Pension Insurance Companies Act], 1125/2006; see Hallituksen esitys 76/2006 vp Eduskunnalle laiksi työeläkevakuutusyhtiöistä annetun lain muuttamisesta [Government Proposal 76/2006 on Amending Earnings-Related Pension Insurance Companies Act], based on the report of the above-mentioned Louekoski working group, see Louekoski (2005).

[30] Earnings-Related Pension Insurance Companies Act, section 2, as amended by Act 1125/2006 (authors' translation).

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model erases the interest conflict of owners and consumers by merging these two roles. [31]

3.2.2. Getting rid of the power games of the outsiders and stabilizing the system

Both interviewees described how the Finnish pension insurance companies used to be targets of corporate takeovers. Potentially hostile and risky takeovers with a background in outside corporate battles might have led to dangerous consequences to the pension system and the benefits of the insureds. In this sort of situation, the system needed stability and independence from the corporate battles going on outside the pension system. The mutual form, with a nature of having all the buyers of the policies as well as the insureds as shareholders, was found as a fruitful solution. As Interviewee 2 put it:

> "By diversifying the power effectively, we were able to get rid of the potentially hostile corporate takeovers in the pension system" (I2)

The importance of this diversification was also emphasized by interviewee 1 who mentioned:

> "All in all, it was important that the power in the companies was effectively diversified" (I1)

Furthermore, the diversification of power was seen to influence to the stability of the pension insurance companies more generally as well. As Interviewee 2 explained, it is important that pension insurers are at least not structurally vulnerable to scandals and negative sensations:

> "It is important that pension insurance companies do not cause any scandals or negative sensations. Pension insurance system needs stability and it maintains its' legitimacy and credibility". (I2)

The stabilizing effect of diversified power and the mutual form was confirmed by the Interviewee 1 who stated:

> "A mutual pension insurer has a stabilizing effect in the society". (I1)

[31] cf. Pottier, S. W., & Sommer, D. W. (1997). Agency theory and life insurer ownership structure. *Journal of Risk and Insurance*, 529-543; MacMinn, R., & Ren, Y. (2011). Mutual versus stock insurers: a synthesis of the theoretical and empirical research. *Journal of Insurance Issues*, 101-111; Talonen, A. (2016). Systematic literature review of research on mutual insurance companies. *Journal of Co-operative Organization and Management*, *4*(2), 53-65.

To sum up, diversification of power certainly has the potential to make pension insurers immune to corporate takeovers. The question remains, however, how well the interests of individual buyers of the policies or insureds are understood and taken into account in mutual insurers. As the power of the shareholders is dispersed, the real power in practice is easily centralized in the hands of the operative management. Thus, existing studies suggest that the mutual form suits better in such situations where managerial discretion is limited. [32] In the Finnish pension insurance companies this can be seen to hold, since the pension premiums are fixed by law and managers cannot exercise discretion. This still leaves questions, however, related to the investment operations where operative managers have more freedom to act.

3.2.3. Getting the stakeholders involved in official structures

The main stakeholders of a Finnish pension insurance company are the buyers of the policies (employers) and the insureds (employees/entrepreneurs). Further, as described above, the insureds are seen as the final principal and beneficiary of the pension product. According to this idea, the mutual model has provided a natural way to guarantee the representation of these two stakeholder groups (see quote below). The representation of the employers and employees in pension insurers administration have been mostly delegated to the labour-market parties/unions, whose cooperation has traditionally formed an important institution (independent from the state) in developing and governing the Finnish labour-market related issues. As the Interviewee 2 described it:

> "The labour-market parties had a representation in the pension insurance companies before as well, but it was based on contracts. With a mutual model, this representation was guaranteed via the organizational form". (I2)

Before mutualization of the pension companies in the 1990s, a significant part of the pension institutions were limited companies, where

[32] Mayers, D., & Smith Jr, C. W. (1994). Managerial discretion, regulation, and stock insurer ownership structure. *Journal of risk and insurance*, 638-655; Adams, M., & Hossain, M. (1998). Managerial discretion and voluntary disclosure: empirical evidence from the New Zealand life insurance industry. *Journal of Accounting and Public Policy*, *17*(3), 245-281; Cummins, J. D., Weiss, M. A., & Zi, H. (1999). Organizational form and efficiency: The coexistence of stock and mutual property-liability insurers. *Management Science*, *45*(9), 1254-1269.

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investors had more power, or funds (see chapter 2), where employers (the buyers of the policies) exercised power. Via the mutual model, the power of the insureds' side was enabled as well.

> "The idea was to ensure that the insureds will have a voice in the company via official structures". (I1)

In this conjunction it is important to recognize that it would have been challenging to remove employers' representation. As described, they did have a long history of using power in the pension system, which was well mentioned by the Interviewee 1:

> "Finland had a long tradition of statutory pension insurance organizations were employers were the sole exercisers of power [cf. funds]. That is partly the reason why employers [buyers of the pension policies] needed to be included in the governance of the mutuals as well". (I1)

However, there was one additional benefit for the inclusion of employers (the buyers of the policies). While the premiums and paid pensions are fixed by law, the buyers of the policies have a possibility to receive premium refunds in case the annual year has been profitable enough. As the profit is significantly dependent on the efficiency of the company, the employer's side has an incentive to monitor it:

> "Also, while the pension premiums and paid pensions are defined by law, employers can receive premium refunds depending on the efficiency of the pension insurer. This puts pressure on the pension companies to take efficiency into account". (I1)

All in all, these two stakeholder groups can be seen to have very similar interests when it comes to governing and developing their pension insurance company. This is well in line with the idea of existing literature suggesting that a mutual company functions well when the stakeholder decisions-makers have somewhat homogenous interests and goals. [33] Accordingly, it can be seen natural that Finnish pension insurance companies are mostly organized as mutuals.

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[33] e.g. Nilsson, J. (2001). Organisational principles for co-operative firms. *Scandinavian journal of management*, *17*(3), 329-356.

3.2.4. No need to exclude limited liability company

Finally, one may ask, why there is still a possibility to organize and govern a pension insurance company as a limited company as well. In the end, forcing every company into mutual status was considered in the Louekoski working group.[34] The reason seems to be that despite the mutual form having been seen as a better form in this conjunction, the existing limited company was not perceived to cause troubles due to its small size. As Interviewee 2 described:

> "Eventually, there was no need to change the law to deny limited liability company form. This was due to the fact that only one minor pension insurer, the Finnish-Swedes' Veritas, was a limited company. It was too small player to cause troubles for the system as a whole". (I2)

4. **Conclusions**

In this paper, we have described the case of the Finnish pension insurance companies. Specifically, we have shed light on the reasons why the mutual company form was emphasized in organizing these companies, especially in the amendments of the Finnish Act on Pension Insurance Companies in 2006. The empirical interviews indicate that there are at least three themes that capture the main reasons for this: a) need to find a tool to implement the legally defined purpose of a pension insurance company, b) getting rid of the corporate power games of the outsider investors and stabilizing the system, and c) ensuring the involvement of the right stakeholders in the company structures.

The Finnish statutory pension insurance offers an interesting case study since the emphasis of the mutual form has been debated and implemented on the state level. It was the working groups established by the Ministry of Social Affairs and Health who put forward the ideas of the potential of the mutual model, introduced then to government proposals to the parliament for legislative reforms. Thus, the mutual form has been recognized, utilized and accepted on the highest level of the society. Furthermore, this was done in an era when demutualizations were a global trend.

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[34] Louekoski (2005).

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Our article, as every study, has limitations that need to be addressed in the future. Firstly, this is descriptive research where the aim was to describe the Finnish case. While the study does not proceed in deep theorization in its' current form, we do believe it offers important insights for scholars from different disciplines who want to understand this organizational form better. Second, the empirical part is based on two interviews. Albeit providing a comprehensive glance at the reasons why the mutual form was emphasized, several additional interviews could further validate our results.

In terms of managerial implications, our results offer a useful report for practitioners to better understand the nature of Finnish pension insurance companies and their development. At the same time, it sheds light on the interpretation of Finnish law. We truly believe that reading of the research will lead to fruitful reflections for everybody working in a mutual insurance company or closely with them and the legal arrangements around them. In addition, this case study provides interesting information for managers and policymakers that aim to develop pension insurance schemes in other countries as well. All in all, Finland's story as organizing statutory pension insurance via private companies, especially mutuals, has been functioning rather well.

Politically, our results begin documenting a truly important part of Finnish economic history. History of the statutory pension insurance is an important part of a wider development story of Finland and its' economy.

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