The Organization of Insurance Companies: Mutual versus Stock

HENRY HANSMANN
Yale University

1. INTRODUCTION

For the student of industrial organization, the insurance industry presents a number of interesting problems. One of the most interesting, and least studied, concerns the degree to which the insurance industry is populated with mutual rather than investor-owned firms.

Mutuals account for almost half of all life insurance in force and one quarter of all property and liability insurance. There are few other industries in which consumer cooperatives—of which mutuals are an example—account for such a large share of the market. In fact, the annual volume of business done by mutual life insurance companies far outweighs the volume of business done by consumer cooperatives in any other line of business. And it is not just in comparison with other cooperatives that the mutual insurance companies appear large; the assets of the largest of the mutuals, Prudential, exceed those of any industrial corporation (*Fortune*, 1983a: 228; 1983b: 166). At present, however, we have no well-accepted theory to explain the remarkable prominence of the cooperative form in this industry. Indeed, the subject has hardly been discussed.[1]

In this article I seek to offer an explanation. The question is of interest not just as a matter of positive economics, but also for law and public policy. The

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1. There are brief treatments of the general topic in Mayers and Smith (425–28) and in Fama and Jensen (337–41), while Heflebower (chap. 12) devotes a chapter to property and liability mutuals. The partial theories offered by these authors are discussed in footnotes below.

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