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The Swedish insurance distribution system, different ownership forms and cartels

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The Swedish insurance companies developed – in line with other Scandinavian countries – an unique kind of distribution system for selling insurance products. The origin of the Swedish insurance market was built on inspiration from in particular from United Kingdom and Germany when the first joint-stock company Skandia was founded in the 1850s. Swedish insurers copied among other things, insurance contracts, premium calculation schemes and organising agent networks. In line with these corporations, each insurance company established regionally based networks of agents with a general agent and a large number of subordinated agents. However, in the Scandinavian setting, the emergency of independent brokers was haltered by an interesting dilemma. Early on, agents used something called 'returned commission' where they offered potential customers to get a portion of the agents's commission. This often led to that customers signed life insurance contracts with higher insurance sums and after some time the could not keep on paying the premium and had to cancel the contract. Due to the social element of life insurance, and the existence of so-called returned commission, cancelled contracts could jeopardize the legitimacy of the entire market. The only measure – according to the trade organizations – to control the agents was to keep the system with that each insurers had their own employed agents. Thereby, the emergency of independent brokers did not developed on the Swedish insurance market.

In this paper we will follow the distribution system for the insurance industry during the 19th and 20th centuries until today and describe how the system was relative stable until the 1980s through legislation but also supported by formal cartelization and gentlemen's agreement on the market. In particular one cartel agreement, that was implemented in the 1910s that focused on the agent system that changed repeatedly until the 1980s – and fundament of the entire distribution system – will be discussed. The paper will focus on the major changes that occurred from the 1980s and onwards, in particular in connection of the accession to the European Union in the 1990s that entirely changed the distribution system on the market.

The rise of the commercial insurance sales network

As we have noted on several other occasions (see for instance Larsson & Lönnborg 2010, 2014 & 2015), the modern Swedish insurance market emerged in the midst of the 1850s. The first company Skandia was founded 1855 in Stockholm with a mixed portfolio, selling both non-life and life insurance. The founder Carl-Gustaf von Koch had acted as general agent for several British insurers in Sweden and thereby gained knowledge about on how to organise an insurance company and more or less copied policy contracts, calculations of premiums, estimations of life expectancy, and maybe most importantly, the way of structuring selling their service. The Swedish market was divided into geographical areas and one responsible general agent was appointed for each area. In turn, the general agent appointed sub-agents to cover specific areas for selling insurance and settling damage claims, but in the case of life insurance, also hired a physician to conduct medical examination of potential policyholders. The head office also employed special agents, so-called travel agents, that as the names says, travel around in the country and helping local agents to boost their portfolios (Lönnborg 2012 & 2017). In short, the general agents received education and business training at the head office on how to sell insurance, and were supposed to educate their sub-agents. The same procedure was used for the general agents in Finland, Norway and Denmark.

The second combined (selling both life and non-life insurance) corporation Svea (Gothenburg) was founded in 1866. Several of Svea's founders had acted as general agents for foreign insurers (the CEO Edouard Boye was in fact the Prussian consul in Gothenburg and general agent for several German insurers). In addition, the board of directors contacted representatives from Skandia and thereby gained access to firm-specific knowledge about premiums and other operational devices from the competitor. From Svea's point of view, this was a swift way to access experience and also to co-ordinate premium levels and conditions in accordance with the competitor in Stockholm. From Skandia's horizon this co-operation was regarded as a measure to control the development of the market. Indeed the Swedish insurance market became characterized by a close co-operation, in particular among joint stock companies. In addition, tariff organizations (the first in 1873), inspired by international organizations in the UK and Germany, were established to develop norms, for instance the conduct of insurers agents, on the insurance industry (Lönnborg 1999. Larsson & Lönnborg 2009b & 2009a).

Several companies only selling life or non-life insurances were founded after 1866, but after the establishment of Skåne in Malmoe in 1884 – the third composite firm – no other corporation received concessions from the government for combined business. After 1884 only 'pure' life or non-life insurance companies were accepted. Skåne also followed the traditional way of selling, collecting premiums and adjust claims as introduced by Skandia (Bolin 1934).

Already in the 1870s a debate arose about the downsides of large share capital. This construction meant that owners could demand large dividends, which would interfere with the interest of the insured. The debate also revolved around the issue of whether fire and life insurance really should be included in the same firm. The differences between the branches, in particular the difference in time span, where fire insurance contracts were renewed every year, but life insurance contracts were valid for decades, appeared as an inappropriate combination. Another problem was that the majority of the assets belonged to and should be repaid with interest to policyholders in the future. Further, in the wake of heavy conflagrations during the end of the 1860s, the danger of composite firms making internal transfers was, according to critics, an indisputable argument that life and non-life insurance should be separated. The advocates of separation claimed that a 'natural' division existed between fire and life insurance, and also argued that the share capital should be limited because it benefited the customers (Bucht 1936).

These arguments and the fact that profitability was considerable higher in life insurance resulted in the establishment of several pure life insurers. The relatively high return on capital in life insurance was a consequence of generally falling death rates in Sweden due to better living conditions and the ability to stay out of international warfare. In

1871 the first joint stock company in life insurance – Nordstjernan – was founded in Stockholm and a year later 'Thule' commenced its business. The latter was also a joint stock company, but organized with strong mutual influences. For example, Thule improved the benefits for customers through limited dividends to owners and also distributed a part of the profit to the insured. Of course these elements caused turbulence on the market, but in the long run the ideas of Thule influenced the entire life insurance market, in particular after World War I (Fredrikson et al., 1972:20-25. Lundberg & Molén 1958: 76-78).

Several other joint stock insurers commenced business, but fierce competition would arise with mutual life insurer established from the late 1880s. In 1887 the first mutual life insurer emerged, and until the turn of the century 13 corporations engaged in this 'customer-friendly' activity were started. These tried to employ more agents to boost their premium income but it was an expansive measure and in the end their sales organisations were structured more or less like the joint-stock corporations.

The local and nationwide enterprises with mutual ownership and the joint stock mixed insurance companies covered a wide variety of fire risks, which in fact limited the establishment of pure fire joint stock corporations. In 1873 the first pure fire insurance company (actually named Sverige 'Sweden') was founded, which, after major disbursement in the wake of conflagrations in Umeå and Sundsvall (in the northern province of Norrland) in 1888, was revived under the name of 'Fenix'. In addition, after these fires several local insurers went bankrupt and a new joint stock company arose concentrating on regional risks under the name of 'Norrland'. The same founders also started the life insurance company 'Norrland'. Another consequence of the fires of 1888 was that the most important mutual insurer Städernas brandförsäkringsbolag (the Cities Public Fire Company) introduced fixed premiums and became more similar to the joint stock companies (it should also be mentioned that Städernas after several mergers ended up in Trygg-Hansa 1971). The last pure fire joint stock company was Fire-Victoria (1898) with close relations to the life insurance company Victoria founded in 1882 (Åmark 1928).

As a means to limit risks the large mixed companies from the 1870s founded reinsurance companies, however only concerning non-life insurance – Freja founded by Skandia 1870 (closed down already in 1878 but restarted in 1906), Astrea founded by Svea in 1872 and Aurora founded by Skåne in 1896. These establishments also proved important for making and foster contacts on international markets. However, these daughter companies was only dealing with property insurance, in particular fire insurance, and any demand for reinsurance for large life insurance risks was solved through individual agreements, often with foreign insurers (Stolpe 1883. Porat 1923. Lönnborg 1999). Of course, these corporations had a close connection to direct insurance company's and had no independent sales organisation with agents, acquisition was instead made by the head office. However, these operations were crucial to diversify risks and to make sure that the survival of insurers was not jeopardised.

An important issue during the second half of the 19th century concerned the institutional set-up. The absences of a special insurance legislation created a legitimacy problem for the industry. In 1879 the Swedish Insurance Society – established in 1875 – could present a draft for an insurance legislation, which was further prepared by the

Department of Civilian Affairs. The government, however, failed in presenting a bill, but in 1886 certain executive orders (called preliminary laws) were issued and a part-time insurance inspector was appointed. This limited public body mainly collected statistical data; real monitoring through actual on-site inspections was not possible. From the point of view of the industry this was of course not sufficient, and the efforts for a special law continued (Enskilda försäkringsväsen 1954). The preliminary legislation did, however, not focus on the issue about the conduct of agents, that was supposed to by handle by the insurance companies themselves.

Prior to the preliminary laws was installed, the larger insurers tried to cooperate to stabilise the market, and one among many other issues concerned the conduct among agents. In 1877, a formal agreement was concluded between Skandia, Svea and Nordstjernan that regulated a number of areas, including for example higher premiums for people taking trips outside Europe; for certain professions that were particularly subjected to injuries (for example, sailors and railroad personnel); and for health risks considered higher than normal. The agreement also contained regulated agent commissions, fees to doctors, commissions for reinsurance and a common policy for loans on life insurances. To guarantee that the agreement was observed, a clause was introduced that no major changes in the life insurance business were to be introduced without consulting the other companies. While this was a major agreement, it was of no great importance in practice, because it had already become obsolete in 1885. The key reason was the lack of an independent organisation that could supervise and punish transgressions against the agreement (Bergholm 1920). The top management in each company was supposed to ensure that every agent in their organisation followed the stipulated guidelines.

The same agents had, however, already tried to formalise co-operation in the non-life sector by creating organisations that coordinated questions that were common for the industry, since this might serve to stabilise the market. In 1873, for example, the so-called Swedish Fire Tariff Committee was established. It coordinated the gathering of statistics to set 'reasonable' premiums on the basis of previous experience. The explicit objective of the Committee was to improve the insurance protection and make fire protection more efficient through correctly estimated premiums and well-adjusted insurance conditions. A basic premium was set by the Committee, which could be increased according to special tariffs for specific and more hazardous risks. If the policyholder undertook preventive measures, the premium could also be correspondingly reduced (Grenholm 1933).

The tariff Committee was clearly inspired by foreign role models; for example The Fire Offices Committee established in Britain 1858 and a similar organisation in Germany, established in 1871. In addition, the foreign companies in Sweden had formed so-called 'collegia' in both Stockholm and Gothenburg, to discuss insurance premiums and terms (Grenholm 1933, 6, similar committees were installed on most markets, for instance UK see (Westall 1984); in Australia (Keneley 2002) and Spain (Pons Pons 2007)). Given the first Swedish insurance companies were influenced by foreign role models it is not particularly surprising that their interactions on foreign markets also followed the approaches used overseas. The work of the tariff Committee was also important for facilitating a clean up of substandard risks. In order to obtain uniform premiums and mutual adjustments of premiums according to risk, it was necessary that all insurers had similar premiums. These were set on the cost structures of the least efficient company. Since not all agents were members of the tariff Committee, however, it was not possible to set monopoly prices.

The market was divided into two halves; one with companies belonging to tariff organisations and standard joint-stock insurers, and the other with mutual insurers that were referred to as non-tariff companies. As new lines of insurance emerged, different tariff Committees were created, such as minor insurance branches for personal accident insurance and burglary insurance. Here too a division between tariff and non-tariff companies emerged. An association that facilitate the homogenisation of insurance routines was the Actuarial Society of Sweden, established in 1904. This ultimately led to a coordination of the mathematical estimates of premiums and risk of the individual companies regardless of ownership form (Sandström 2004).

Another co-operative organisation with a less direct objective of limiting competition was the Insurance Society in Stockholm. It changed its name to the Swedish Insurance Society in 1919, and is still active under that name. This organisation was initially devoted to creating 'sound' conduct in the insurance market through education, information gathering and diffusion. But the statutes of the association also expressed the desire to increase co-operation by favouring common terms of insurance and premiums among companies. The association was important for standardising the definition of different insurance terms and increasing transparency within the industry. In addition to this society's efforts, industry information was distributed through, *The Journal of the Insurance Society*, which was first published in 1878 and which was later renamed in 1921, the *Scandinavian Insurance Quarterly* (Kleverman & Lönnborg 2000 & 2015).

The driving force behind the creation of the Swedish Insurance Society in the 1870s was, however, to advance special insurance legislation. There was a need to clean up the industry and eradicate less-serious companies, which were not solvent. The fact that the structure of several companies was not entirely favourable is shown by bankruptcy of several smaller companies in the last few decades of the nineteenth century. A special insurance law was needed to not only contribute to the reinforcement of company finances, but to increase the legitimacy of the industry to existing and potential customers. This would also increase the possibility of driving foreign companies out of the market and recruiting customers who had not previously been insured. In 1886, as noted, a preliminary decree was introduced to supervise the industry (with the help of a part-time employed insurance inspector), but it was not until 1903 that a special insurance business law was introduced and the National Swedish Private Insurance Supervisory Service (hereafter the Swedish Insurance Inspectorate) was established (Larsson 1998; Boksjö & Lönnborg-Andersson 1994).

There were also obvious instances of competition in the insurance market. Skandia and Svea had been established with large insurance funds to protect their policyholders. Over time, however, it became apparent that the returns for life insurers were very high and less capital was required. As a consequence, pure companies with a considerably smaller capital stock were established. From the end of the 1880s until 1900, 13 mutual life insurance companies were established where policyholders themselves owned the firms. The first mutual company – later called Balder – was established in 1887 and was independent from the joint-stock companies. Allmänna Lifförsäkringsbolaget, which was established in the same year did, however, join the joint-stock companies' cooperative when it came to premiums and insurance terms (Fredrikson et al. 1972, Englund 1982).

Towards the end of the nineteenth century, the antagonism between joint-stock companies with large capital reserves and the smaller mutual insurers with less-capitalisation became increasingly obvious. The criticisms mainly came from the large joint-stock companies that asserted that capital stock created confidence among the general public. The mutual companies with a small capital stock were thus jeopardising the legitimacy of the entire industry. The result was increased uncertainty for policyholders in small capital stock mutual companies and certain smaller joint-stock insurance companies. In response several smaller mutual companies with economic problems merged with larger mutual companies. According to the mutual companies, the problem was not size. They considered that the joint-stock insurance companies tied too much capital into their own shares. The result was a yearly dividend that decreased the value of the capital of the policyholders. The debate between mutual companies and joint-stock companies was mainly pursued through the insurance journals but also using pamphlets and brochures. The argument came to be called the large 'battle of principles' and culminated in 1900-1902. The mutual antagonism was presented as a fight about how the insurance companies should be organised to best satisfy policyholders' interests. 'The combat of principles' was solved when an insurance business law could be introduced in 1903 after decades of discussion (Bergander 1967, Larsson & Lönnborg 2014b).

The legislation of 1903 was important because it created general confidence in the insurance industry. The government intervention also opened up further co-operation within the industry. The legislation was built on existing market norms and this meant that agreements that had previously existed between select companies could now constitute the basis for all agents in the market. The law thus contributed to the creation of unanimity between the companies. For example, it resulted in a standard approach to the mathematical calculations underpinning life insurance, the calculation of premiums, the calculation of profits and the distribution of profits to policyholders. The overall objective of the law, to create financial stability for the companies, led to a standardisation of the business, which in turn stimulated co-operation between the companies, not the least within areas where the law did not provide any clear guidelines. The stricter enforcement of the principle of publicity, the requirement that the financial position of the company be published for the general public, further improved standardisation of the market.

One important matter that would change the insurance market and boost the number of agents occurred at the same time. The mutual life insurance companies had tried to reach the less fortune part of population to become policyholders but without any major success. The average worker had no possibility to pay premiums a year or even a quarter of a year in advance. Therefore, and with inspiration from US, so-called industrial life insurance companies were founded. The first one was Trygg (Safe) in 1899 and later several additional companies were founded in the beginning of the 20th century. One of the important ones was De Förenade (the united) founded by the larger life joint-stock companies to compete on this market that developed were fast. The major idea behind the industrial life insurers was to write small insurance sums collected on a weekly basis and without any medical examinations. Of course, this required a completely new kind of organisation and the introduction of so-called leisure agents (or field agents), part-time employed that only worked for a commission was developed. The number of agents exploded, for instance when Trygg was founded in 1899, the 19 Swedish insurance companies had all together about 100 professional agents, and ten years later, Trygg alone had more than 600 agents. In addition, the industrial life insurers followed the traditional sales department, with district heads, inspectors, but then with a much more extensive sales organisation in the field filled by leisure agents (Sjöblom 2016:152ff).

The new legislation put the various organisational forms on the same level, which was particularly important for the mutual life insurance companies. This facilitated the organisation of a broad level of co-operation within the life insurance sector. After the big fight about principles, it was important to create a forum where mutual questions concerning life insurance could be discussed. In 1906, the Swedish Life Insurers Director Association was established, which consisted of representatives from both joint-stock companies and mutual companies. In 1936 the company changed names to The Swedish Life Insurance Companies' Association and over time, almost every life insurance company in Sweden came to join the association (Englund 1982:65). The new trade organisation did make it possible to find common grounds for most of the life insurers. However, some problems regarding the agent system remained.

Since the end of the 1880s, the existence of return commissions, i.e. when an agent gave part of his provision to the policyholders to attract new customers had been strongly debated. This strategy created additional costs for the companies, because it encouraged individuals to take out amounts of insurance higher than they could really afford, and they were frequently forced to cancel their contracts. In 1890, Skandia, Svea, Nordstjernan, Thule and Allmänna Liv agreed to prohibit return commissions, but since there was no punishment system, the agreement had no effect in practice. The inability to enforce an agreement was a problem that was an early discussion in the Director Association as the same problem applied in situations where agents convinced policyholders to change insurers (disloyal competiton). Another important question focused on the payment of commissions to doctors who examined potential policyholders and how, co-operation among the companies could mean avoiding those doctors who did not fulfil the companies' requirements (Bergander 1967).

Another feature of collaboration occurred in 1914, when life insurers (both joint-stock and mutual companies) jointly founded the reinsurance company Sweden Re. The company was partly created as a means of cleaning up the life reinsurance market because smaller insurer had signed treaties with foreign insurers that in the long run could jeopardise their survival and in turn hurt the confidence of the entire market. The creation of Sweden Re also meant that every life insurer used the same kind of reinsurance arrangements, which further enhanced collusion on the market (Larsson & Lönnborg 2014a). Again, the reinsurance business was not by

The insurance legislation was partly revised in 1917 resulting in stricter and more standardised accounting routines. An explicit prohibition against return commission was introduced and the companies also became responsible for the behaviour of their representatives. Even these changes, however, were not sufficient to solve the problem with the representatives in the industry. The law also led to a tightening of the rules for profit sharing to policyholders. The problem of return commission was not finally solved – as we will come back to – until the 1940s but remained an issue until the 1980s (Larsson et al. 2005).

The insurance business law of 1927 was yet another institutional change that further standardised insurance companies. This regulatory framework defined policyholders' obligations to provide information, while also standardising the terms of insurance of the different countries. This increased comparability between companies but also decreased competition, since the companies with a few exceptions, had the same life insurance premiums. The Insurance Inspectorate claimed, however, that the law mainly protected policyholders' interests and that it only had a limited impact on competition (Enskilt försäkringsväsen 1954). Again, the new legislation did formalised the insurance terms among insurers, but still the existence of returned commission and agents trying to 'steal' other company's clients, created problems.

The agreement on acquisition and the legislation for structuring insurance sales
As noted, one of the major issues on the Swedish insurance market during both the 18th and 19th centuries was to find a solution among companies how to sell insurance and with make an arrangement that all insurers found acceptable. The joint-stock corporations and the early mutual insurers more or less followed the way Skandia had structured their selling organisation. There were some problems that agents tried to overtake other companies customers but the problems became more severe when new mutual companies was founded in the 1890s and particular when industrial insurers commenced business at the turn of the century. These used completely different agent organisation because they collected premiums on a weekly basis and to keep that kind of line of business a lot of so-called leisure agents were employed. These agents only worked part-time with selling policy's and collecting premiums and the received limited education about the business of insurance. This would become one of the most severe problems on the Swedish insurance market.

The insurers tried many different ways of dealing with this problem of selling insurance or rather the existence of so-called returned commission ; or as it was called on the market, the standardisation of acquisition. This refers to how insurers' representatives should conduct themselves when selling insurance. In the 1930s debate on nationalisation high administration costs were argued to be the result of organisations with a large share of leisure agents. Insurance companies had previously tackled this issue in the nineteenth century by attempting to establish common sales rules. These arrangements led to the establishment of the 'Royal Agreement' in 1907. The agreement was revised over the following decades to increase its efficiency. With the introduction of the new insurance business law in 1948, the agreement was renamed to the agreement on acquisition, and in 1983, again renamed to the marketing agreement (Sterner 1956. Grip 1987. Strömbäck 1995).

From the beginning, the agreement aimed to reach a common view of the relationship between insurance representatives and customers, and control competition between the insurance representatives. Among other things, return commission was prohibited, where the customer and the representative shared the commission, but this rule was largely ignored. The agreement also contained a prohibition against moving an existing insurance to a competing company. The agreement contained no sanctions, however, something that led to a tendency to dissolution. Accordingly, negotiations had to be resumed only a few years after the ‘Royal agreement’ had been made. In order to create a new contract, similar to 1907, one company chose to go through the cooperative organisation ‘The Swedish Life Insurers Directors Associations’ (Skogh & Samuelsson 1985).

A new agreement was presented in 1910 and, besides a closer regulation of the agreement, it also contained a penalty system that would come into force if terms in the agreement were broken. The aim was mostly to increase control over the company’s representatives. The people were, among other things, obliged to report to an industry-wide registration agency before they could start selling insurance. An arbitration board was also established to solve differences between the companies. The overall objective of the agreement was to contribute to a ‘sound’ competition, while at the same time removing less reliable representatives. The surviving representatives were offered training so that the agreement was to be distributed over the entire sales organisations (Lindström & Strömbäck 1983, 232f).

Also the insurance business law of 1927 did contribute to the removal of some the problems with acquisition, it also paved the way for controlling the acquisition of liability insurance. Until 1930, the ‘Royal Agreement’ only applied to life insurance, but in the middle of that decade, a similar agreement was introduced for non-life insurance. In the following years, there was an attempt to merge these two agreements into a single common agreement for the entire industry. This did not become a reality until the introduction of the new insurance business law in 1948. This agreement on insurance transactions was tied to the new law and became more important in controlling the business of company representatives. At the practical level, uniform requirements for training of the representatives were developed. An administrative board was established to ensure that the common rules of the game were followed and thus contributed to the creation of ‘sound insurance practice’ in the market. The sound insurance practice was described in the following general way: ‘This general objective includes that in marketing, the rules of the game are to be respected, that dubious competitive methods should be refrained from, no bad things should be said about one’s competitors and truthful information should always be given.’ (Lindström & Strömbäck 1983, 235).

At the beginning of the 1980s, the agreement was reformed due to new marketing legislation and renamed ‘the marketing agreement’. The rules of this agreement served to supplement laws and practice and set out how the agents should act in practice, to fulfil existing expectations. A couple of overall rules for customer contacts and relations to competitors constituted the basis for this. The aim of the rules was to reinforce confidence in the companies and increase the legitimacy of the entire industry (Skogh & Samuelsson 1985).

This cartelised outcome was an example of self-regulation producing common efforts to address a problem that could otherwise decrease the legitimacy of the industry. There were, however, other consequences. Among other things, the agreement led to the emergence of independent insurance brokers being counteracted (independent brokers were by law forbidden). It was, in fact, the companies’ own representatives who carried out sales, as this guaranteed that the agreement would met. These agreements (where only representatives from companies was allowed to sale insurance) can, of course, be questioned from a competitive perspective, but both individual companies and the Insurance Inspectorate considered market stability to be more important than competition through independent brokers.

The marketing agreement ceased to be valid in 1986, was reorganised and transferred to Swedish Insurers Service, and finally dissolved in the 1990s when Sweden entered the European Union. This deregulation allowed for the first time in history independent brokers to operate, and made it impossible to continue the agreements, and thus increased competition in the market. It was expected that the code of honour in the industry would be maintained by the Insurance Inspectorate and the Swedish Insurance Federation with the assistance of the Swedish Insurance Society. The basic principles for acquisition of companies that had been established in the 1910s were still relevant when new distributional channels were established.

In sum, during the 20th century, according to the public cartel registry, 90 different agreements were settled on the Swedish insurance market. The registry reveals that the majority of the cartel agreements within private insurance were price cartels, which led to the premiums being generally higher than if there had been “free competition”. It is also clear that the design of many of the agreements mainly served to define the rules of the game for the agents and which, in the long run, served to protect policyholders. At the same time, the agreements facilitated company administration. Overall company self-interest dominated altruistic motives. One of the agreements that had to be revised repeatedly was on the matter of acquisition but the solution of the problem instead appeared when the market structure was changing and the agents became more professional (Larsson & Lönnborg 2016).

Concentration of the market and disappearance of leisure agents

The Swedish insurance market structure changed immensely from the 1960s and onwards, and two large enterprises were created through mergers. One of them was Skandia, in which almost every insurance joint stock company joined through mergers during the 1960s. Skandia and Svea merged in 1960 and one year later the Skåne group also became part of the corporation. The same year Öresund Group (mainly marine insurance) also merged and finally in 1963 the Thule group (with the largest life insurance portfolio on the market) joined the new Skandia concern. After the final merger the group included 23 insurance companies (which a couple of years earlier had been 57), but in the following five years 20 of these disappeared through internal mergers, and thus, the group consisted of one life insurance company, one non-life and one reassurance firm (Englund 1982).

Considering that the new Skandia group consisted of almost every joint-stock company on the market, the incentives for different kind of co-operation diminished and several collusion organisations were closed down. However, the basic rationale for selling insurance was intact, every company had their own sales force. Instead, the mergers implied a major revision and the number of agents were reduced considerably. In addition, the number of leisure agents was reduced even further and the new Skandia Group became more professional in the sense that agents were full-time employed.

The company *Trygg-Hansa* was also created through a series of mergers among the mutual insurers (in total 40 companies in 4 corporate groups, including for instance the previously state operated 'The Cities'), and the major merger was concluded in 1971 (Fredrikson *et al*. 1972). These mergers were especially important to cut costs and made it possible to compete with especially the new Skandia regarding economies of scale. As in the case of Skandia, the number of part-time employed agents more or less disappeared. In addition, the previously industrial insurers, selling so-called small insurances, were merged into the new Trygg-Hansa. These had due to the emerging welfare state, become more like 'normal' mutual insurers and only sold traditional life insurance products (in the old terminology, large insurances).

However, mergers were not the only option available in order to increase efficiency. Beside these two large corporations, the cooperative-unionist company Folksam grew dramatically, measured in premium incomes, and without extensive mergers. In Folksam's case the strategy was rationalising within the organisation and supplying policies in collaboration with trade unions, and this helped keeping costs comparably low. These three insurance groups came to dominate the market by the mid-1970s and also gave it a clearly oligopolistic structure (Grip 2009. Blomberg 1963. Jüring 1978 & 1983).

In the 1970s, however, a 'new' player surfaced and challenged the rest of the industry. After heavy losses due to increasing ratios of claims and high inflation, the larger companies Skandia, Trygg-Hansa and Folksam increased their premiums, and this opened for another company, Länsförsäkringar (County Insurances). This group is today the largest provider of non-life insurance in Sweden; however, explaining this process requires a short backdrop.

Länsförsäkringar is in practice 24 independent provincial companies joined together in an alliance. These firms started during the early 19th century as mutual county insurers (as a response to the underperforming Fire Aid) and of course concentrated on rural risks. During World War I a common organisation was founded as a mean to facilitate co-operation, and in 1937 a common reinsurance company was established. In 1944 the common organisation was turned into a joint stock company and contributed as a nationwide organisation with special lines of insurance to the regional companies. In the late 1960s these corporations suffered from urbanisation, which undermined their market shares, and as a response to this burdensome situation a new kind of co-operation, including the same brand name and intensified sales effort in larger and medium-sized cities, was launched. The 'principle of need' made it impossible for individual regional companies to obtain concession in some lines of insurance, but this nationwide organisation circumvented this obstacle. For instance, expansion in third-party liability and motor vehicle insurance was made possible for every regional company thanks to this construction (Larsson & Lönnborg 2007).

Thus in the 1970s when the rest of the insurance industry encountered difficulties and raised premiums generally, the wealthy regional companies established themselves in larger cities and retained the previous low premiums. This strategy was a big success for Länsförsäkringar, and later when the regulations were relaxed, it expanded into life insurance (1985) and banking (1996). Another insurance group was the mutual Wasa that after extensive mergers emerged as a major player in the 1980s (about 12 per cent of the market), but in 1998 Wasa and Länsförsäkringar merged under the latter name, which further strenghtened the Länsförsäkringar group.

In the wake of the intense concentration process, the importance of cartels in private insurance declined substantially in the late 1960s. The larger companies incrementally preferred setting their own premiums and conditions regardless of competitors. The starting point for this development was 1967, when Skandia left the common tariff organisation, and the following year the rating institute was closed down (Larsson & Lönnborg 2007. Boksjö & Lönnborg-Andersson 1994).

The increased competition on the domestic market also made it more tempting to enter or deepen foreign operations. There was a general increase in internationalisation in the late 1960s and in particular from the 1970s when the Riksbank became more lenient in approving foreign investment. The new merged Skandia actively consolidated its large number of foreign agencies in order to increase efficiency and find growth opportunities. Skandia engaged more heavily in the US, but also on European markets and acquired companies in the Scandinavian countries. Trygg-Hansa as well as Folksam was also active on foreign markets and established companies for instance in the UK and the US from the 1970s, but compared to Skandia on a much lesser scale (Lönnborg 2002. Larsson and Lönnborg 2007. Kuuse and Olsson 2000).

To sum up, the massive waves of mergers implied that old sales organisation with major part of part-time leisure agents that to some extent also had been used by the larger insurers, vanished. The cartel agreements to make sure the conduct of agents had to a large extent concerned these agents because they normally had limited education about selling insurance. So the changed market structured solved that problem that had concerned the insurance market since the 1880s.

Deregulation and the introduction of insurance brokers in the 1980s
In the beginning of the 1980s the Swedish financial market underwent an extensive deregulation. These changes were closely connected to the international process and thus became a vital part of Sweden's closer contacts with the European Union. These institutional changes most of all affected the banking system, but the private insurance market underwent an extensive transformation as well (see table 2).

At the same time as the deregulation of the financial market occurred, the pension system was substantially reformed. In the early 1980s the long-term survival of the ATP-system was seriously questioned, but it was not until 1999 that the reformed pension system was accepted in the parliament. The new pension system was based on the previous ATP. But with new calculations, new rules for capital investments and new intentions – based on the idea of a system with clear connections between inputs (fees) and outputs (benefits) – it also contained major changes. The new system could be described as a mix of PAYGO and a defined benefit-system, where the individual has to make choices concerning how part of their savings should be invested. The possibility for free choices of investment was the major change from the previous system, and in fact altered the preconditions for the entire savings market. Banks, insurance companies and pension funds now gained access to a market previously entirely controlled by the state (Ds 1994:82. Haji Ghasemi 2004). In short, this reform and the new information technology did in fact opened up for independent brokers but also made it possible for individuals to make their own choices through internet. This further dismanteled the traditional way of selling insurance in Sweden through agents employed by individual corporations.

Returning to the deregulation process, the so-called 'principle of need' was abandoned in 1985, and this opened the market for the establishment of new actors. The principle was challenged in the 1970s when multinational firms, for instance Tetra Pak and Electrolux, obtained licenses for 'self-insurance' through captives. The repeal of the principle terminated the possibility for the government to control the structure of the market, but it was not until 1990 that foreigners could legally acquire shares in Swedish financial firms. Another important deregulation was enacted in 1986 when the rules restricting capital investments were abandoned. This opened up for a more flexible administration of capital among insurers. In addition, the entire financial market was deregulated and increased the competition between the actors on market, when it became possible for banks to sell insurances and insurers to start leaving credits through newly founded banks (Lönnborg *et al*. 2003:134-138. Larsson & Lönnborg 2014).

The market was further developed as the traditional sales organisation for insurers was altered. Collusion within the industry had previously resulted in a structure without brokers. Instead each company had its own sales organisation supported by employed agents and provision based salesmen (so-called leisure agents). This arrangement, with few exceptions, remained unchallenged until the 1990s, when new legislation allowed foreign insurance companies to do business without a sales organisation of their own (SOU 1986:55). This gave legitimacy for a growing domestic industry of financial brokers, which resulted in a more competitive market. Thus, one of the most important structural change in the Swedish insurance market during the last 25-year period - which is not reflected in Table 1 - is the possibility of distributing insurance on the Swedish market as an independent broker since 1990 (which are now referred to as insurance brokers). This is a business that grew rapidly - in 2005 there were 333 insurance intermediaries registered and ten years later over 1000. Through these brokers and through the expansion of information technology, it has become possible to enter new national markets without actually being established in the country. This can explain why the number of foreign insurance companies was still relatively limited in 2005 but doubled until 2015.

Table 1: Number of insurance companies in Sweden 1960-2005

Type of insurer	1960	1965	1970	1975	1980	1985	1995	2005	2015
Joint-stocks	50	33	26	26	29	34	79	113	106
Mutuals, in total	1035	915	768	622	549	503	196	130	91
which of									
Nationwide	53	46	39	27	26	27	19	13	…
County	126	115	102	98	89	36	45	36	…
Parish	856	754	627	497	434	440	132	81	…
Foreign companies	33	32	26	17	15	14	16	25	53

Anm: Data for 1995, 2005 och 2015 builds on public statistics computised by authors. Due to changed accounting standards for smaller companies, is not possible to compare these categories after 2005 and neither different mutual forms.

Other parts of the deregulation opened the market for the introduction of new products, which would totally change the structure of the life insurance market. In the beginning of 1991 a new legislation concerning unit-linked insurance was implemented. This meant in practice that the customer made his/her own decisions regarding how and where the savings should be invested. The background for this re-regulation (in practice of course a deregulation) was a growing reluctance towards the traditional situation with inefficient competition and strict rules on capital investment. Because of the complex regulations concerning life insurance, the solution for a swift introduction of unit linked insurance was an entirely new legislation and only new companies could apply for concession, which facilitated collusion between insurance companies and banks (Grip 1991).

This institutional change was important for the creation of a financial system where banks and insurance could compete in areas previously closed by legislation. For the first time since the introduction of the 1948 insurance law, it was also possible to make a profit on life insurance, while 'traditional' life insurance at the same time remained protected by the 'principle of mutuality' (Larsson and Lönnborg 2007).

This change was supported by another institutional liberalisation in 1991, when financial companies gained legal access to acquiring shares in other financial companies. An expected outcome of this policy change was that 'financial warehouses' acting on several financial markets would emerge. As a consequence of this, the Insurance Inspectorate and the Bank Inspectorate merged into one governmental body – the Financial Inspectorate in 1991 (Larsson 1995. Ds 1990:57. Berg and Grip 1992).

The deregulation of the insurance market was thus an incremental and rather slow process, primarily adapting to international circumstances and domestic criticism of what was regarded as an out-dated financial sector. The process was also characterised by sudden changes, as an effect of Sweden's application for membership in the European Union. In practice, the application (handed in 1990 by a Social Democratic government) demonstrated that the government already had decided to realize a new policy and fully adapt to European standards. In complying with EU standards, the last remains of the Swedish financial model were dismantled (Rees & Kessner 1999. SOU 1991:89).

Table 2: Deregulation of the Swedish insurance market 1985-2000

Year	**Measure**
1985	The 'principle of need' repealed
1986	The investment control dissolved
1989	The currency exchange control abolished
1990	Insurance brokers allowed
1990	Introduction of unit linked insurance
1991	Insurer can conduct business other than insurance
1995*	Introduction of European Union legislation
2000	The 'principle of equity' repealed
2000	The 'principle of mutuality' revoked

* The first steps of harmonisation with EU began already in 1991, but Sweden formally joined the Union in 1995.
Source: Larsson *et al*. (2005:237). Berg & Grip (1992:28-29).

Alongside the changing institutional environment for the insurance industry the financial market was in the early 1990s hit by a severe crisis caused by a collapse of the real estate market. This crisis initially affected individual banks through heavy losses, but as problems increased the survival of the whole banking sector was endangered. Thanks to governmental support, however, it was possible to overcome the crisis relatively quickly. Insurers also encountered problems, in particular in the field of credit insurance. Losses in international business, however, also had repercussions on nearly every insurance company. This would in fact have severe consequences for the development of the insurance market as such.

For Trygg-Hansa the problems started with the demutualization in 1989. Shares were distributed to customer without charge and the company was listed on the Stockholm Stock Exchange. One of the motives behind this change in ownership structure was to facilitate the inflow of capital before reshaping the company through two large acquisitions. The first was the purchase of the American company 'Home of New York' which was twice the size of Trygg-Hansa. But after heavy losses 'Home' was sold to the Swiss company 'Zürich'. The other investment was made in the Swedish 'Gota Bank' in an attempt to develop the arsenal of financial services. Already in the early phases of the financial crisis, however, Trygg-Hansa was forced to make further contributions in restoring the liquidity as well as solvency of Gota Bank. Finally, in 1992 Trygg-Hansa no longer could continue to add new capital to Gota and the ownership of the bank was taken over by the state (Lönnborg *et al.* 2003).

The economic problems of Trygg-Hansa also contributed to the creation of a new financial constellation, when the SEB bank acquired the insurance company in 1997. Soon after this purchase SEB sold the non-life operations of the company and rented out the brand name of Trygg-Hansa to the Danish 'Codan' (owned by British Royal & SunAlliance, today RSA). This meant that for the first time ever, foreign interests controlled a domestic Swedish insurance company.

The deregulation of the financial market repealed almost every institutional obstacle for doing business abroad. However, in spite of Sweden's membership in EU, the fall of the communist regimes in Central and Eastern Europe, and the deregulation of markets in for example South America, Japan and China, the majority of Sweden's insurance companies decided to withdraw from foreign markets (Swiss Re, Sigma 2005 & 2007. Lönnborg *et al.* 2004). Despite improved international circumstances during the 1990s and the beginning of 2000s, the domestic market became increasingly important for almost every Swedish insurer. This seemingly illogical development was first and foremost explained by a lack of venture capital to compete on the international market. But also fierce competition and severe losses incurred on several foreign markets made the wisdom of retaining worldwide operations doubtful. In addition, the deregulated Swedish financial market made it more urgent than ever to consolidate the positions on the domestic market (Larsson *et al.* 2005 : 265-270). This partly suggests that the strongly regulated environment did not hamper the insurers doing business abroad; it even seems likely that the 'stable' home market was a vital precondition for international business, which is a surprising conclusion.

In sum, the Swedish insurance market changed considerably during the last 25 years with that several non-life insurance companies has been bought by foreign insurance companies. The life insurance market is today totally dominated by mutual insurers, in particular since the first joint-stock insurer Skandia was transformed into a mutual company in 2013. In sum, the distribution system of insurance products today in Sweden is much like any other European country.

Conclusion

The current situation of distribution insurance in Sweden is like in most European countries. Each companies has employed agents but the new information technology has made it possible for potential policyholders to search for their own insurance solutions by themselves. In addition, independent brokers have today a large share of the acquisition of insurance products. Earlier attempts to create legislation and cartel agreements to secure a sound distribution system are today governed by the Financial Inspectorate and different trade organisations. In addition, state agencies also deal with complaints by policyholders and the earlier Scandinavian way of selling insurance through agents tied to each company is today totally dismantled.

The distribution system of selling insurance has of course changed considerably since the first commercial insurance company was founded in the 1850s. At the same time the issue about organising the sales among insurers has been connected to several other issues on the market, for instance collusion and competition, gentlemen's agreements, cartels, and legislation. The original set-up of selling insurance was inspired by in particular British and German insurers through an agent system. Normally, a general agent became responsible for a larger geographical area, and appointed agents for specific areas, which in turn employed sub-agents, which to a large extent was so called leisure agents. In addition, a fully employed so-called travel agent, travelled around in the different areas to help the agents to boost the acquisition. The real change occurred at the turn of the century when industrial life insures was founded. They created extensive organisations with part-time agents that managed to collect premiums on a weekly basis, and of course increased the total premiums for their company's. The larger companies partly followed this development and the number of agents increased extensively during the first decades of the 20th century.

Of the major problems was the so-called returned commission, when an agent promised the potential policyholders that he or she would get part of the agents commission. Usually this led to that the policyholders wrote a more expansive insurance contract than they could afford, and had to cancel the contract. This became very expansive for the companies, at the same time as it looked like the insurance companies had failed in their mission to increase safety in society. This could hampered the legitimacy of the entire insurance industry but of course the insurance company more looked on the issue that administration costs increased considerably.

In the 1870s, and 1880s and 1890s several different agreements was made on the market to deal with this problem and in 1907 the so-called 'Royal agreement' was supposed to adjust this problem. But the issue continued and not until the 1940s it was possible to make an cartel agreement on the issue of acquisition that lasted. The cartel agreements changed name a couple of times, and the last definition was at the 'marketing agreement' in the 1980s. The idea was that every company had to keep their own sales organisation to be able to control the conduct of the agents, which of course implied that independent insurance broker was not possible. However, the problem solved itself when the market structure change, in particular because of mergers and the sales organisation became much more professional and all part-time agents disappeared. In the 1980s the legislation changed and among the different deregulation matter was making independent brokers legal, a major step in transforming the market.

Since the early 2000s, the Swedish insurance companies almost only conduct business on the domestic market and the international operations has been closed down. The demutualized Trygg-Hansa was overtaking by RSA in the middle of the 1990s and Skandia became, through a hostile take-over, part of the south-African Old Mutual in 2005. However, in 2012 the daughter company Skandia Life acquired the mother company and the first insurance joint-stock corporation in Sweden was transformed into a mutual company. Meaning that in particular domestic mutual insurers dominate the life insurance market, the non-life market to a lesser extent. Concerning the distribution system, since the deregulation in the 1980s allowing the presence of independent brokers, the number of these has increased considerably and now dominates the distribution system. The new information technology has also changed the distribution system with acquisition through companies' websites and other kind of comparable sites. Through the deregulation and maybe more important accessing the European Union, the Swedish insurance market and way of distribution have become more like any other European country.

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