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## **HOW CAN INSURANCE COMPAGNIES COMPETE WITH MUTUAL INSURERS? THE ROLE OF COMMITMENT**

**Renaud Bourlès**

**November 2006**

**DT-GREQAM**

# How Can Insurance Companies Compete With Mutual Insurers? The Role of Commitment.

Renaud Bourlès\*

November 9, 2006

## Abstract

The aim of this paper is to analyze the impact of the existence of mutual firms on the behavior of insurance companies and more precisely to study in which situations an insurance company can enter a market controlled by mutual arrangements. Our approach differs from the existing literature as we integrate the investment choices of the insurance company and the fact that, because it commits on a fix contract, it can become insolvent. In such a situation we are able to characterize the unique optimal choices of the monopolistic company and the conditions favoring its appearance.

**Key words:** Insurance market, Mutual firms, Commitment, Insolvency

**JEL Classification No. :** L1, D8, G22

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