

## Small pension bureau to major employment pension company

Varma's history reflects the sinuous path of a company that started out as a small pension bureau and grew into a major employment pension insurer and global investor. Varma as it is today was born out of a series of mergers and acquisitions in the insurance sector. The events also offer one view of what pension insuring is and how it took shape in Finland as structural change transformed society. Insurance was used as a means of collectively preparing for the risks that threatened people's livelihood: old-age, disability and the death of a family provider. Initially, pension insurance was mainly aimed at white-collar workers, but the statutory earnings-related pension scheme marked a major turning point in the development of social security. Earnings-based pension cover was expanded during the welfare state's formative years to cover regular wage-earners and entrepreneurs. Three other major changes in society were also clearly apparent in pension companies' operations: the widespread use of information technology, specialist work and the "white-collarisation" of paid work, and the corporatism that reflected the strong role of labour market organisations. Earnings-related pension funds have also been used to finance business activities and build housing and infrastructure.

Jälleenvakuutusosakeyhtiö Varma (Reinsurance Company Varma) was established in 1919, after World War I and after Finland gained its independence, as a joint venture of life insurance companies based on the Nordic example. Kaleva, Salama and Suomi wanted to join forces in coping with the exceptional times as the unprecedentedly high inflation called into question savings-based life insurance and endangered the existence of companies. New life insurance companies later also joined Varma's owner base. Besides granting reinsurance and high-risk life insurance policies, Varma also became a co-operation organisation for life insurance companies.

Other Nordic countries were also looked to as an example in 1926, when Varma launched group pension insurance aimed at white-collar employees. As wage labour became increasingly common, the need and demand for pension security for private-sector white-collar employees also grew. Group pension insurance proved to be a disappointment at first, as the new type of insurance did not reach the same level of popularity as it had, for instance, in Sweden. Finland lagged behind its neighbouring country in terms of societal development, and old-age security was not considered a necessity even among white-collared workers themselves. The inflation experienced during World War I had eroded trust in the insurance business and in saving. The worldwide Great Depression of the early 1930s further hampered the beginnings of the new type of insurance. A few larger manufacturing companies gradually became Varma's customers, however, and this had a far-reaching impact.

Eläke-Varma (Pension-Varma) was established in 1947. World War II, combined with massive inflation, once again caused problems for the insurance business. As far back as in the 1930s, manufacturing companies wanted to separate pension insurance into its own company or establish a new mutual company that they would control themselves. The life insurance companies that were the owners of Varma were left no choice but to act according to the will of their customers and establish a new mutual company for pension insurance. Eläke-Varma's operations expanded in the 1950s as wage labour increased and companies' social responsibility for their employees took a more prominent role in the social debate. The voluntary path, however, was coming to an end. The need for a more thorough reform of private-sector earnings-based pension cover was becoming

increasingly clear, especially after the national pension reform that was introduced in 1957 and which essentially ended up being a flat-rate pension scheme.

Eläke-Varma's operating environment changed completely when the private-sector employees' pensions acts came into force in 1962. While the company's customer base grew, it also had to compete with new earnings-related pension companies. Eläke-Varma did not have to start from scratch, and the company was also able to acquire new customers, thanks to the pension insurance expertise it had previously built up. Since Eläke-Varma already had a customer base, the company had to adapt its existing insurance portfolio to the new earnings-related pension scheme. The era of statutory earnings-related pension cover was reflected not only in the several-times-larger customer base and insurance portfolio, but also in the growth in the company's staff.

Eläke-Varma became the second-largest earnings-related pension insurance company, after the considerably larger Ilmarinen. In terms of later development, it was essential that Eläke-Varma was characteristically a pension insurer of large manufacturing companies that were often closely linked to Yhdyspankki (the Union Bank of Finland). Another difference compared to other employment pension companies was that Eläke-Varma had no direct links to other insurance companies. This also meant that, outside of its head office in Helsinki, the company did not have a branch network elsewhere.

In the early days of the earnings-related pension scheme, employment pension companies had a customer base that was largely divided according to which insurer a company had already taken out statutory accident insurance with. Industry operators wanted services that benefitted them, and they had no interest in focusing their efforts on smaller companies, which was also apparent when the Self-Employed Persons' Pensions Act came into force in 1970. The voice of large companies could also be heard in Eläke-Varma's choices of Managing Director: Teollisuusvakuutus (Industrial Insurance Company Ltd), which formed in 1965 from four specialist insurance companies serving large-scale industry and having a common customer base, started becoming a close partner to Eläke-Varma.

The restructuring that affected employment pension companies over the next few decades were related to three issues: the distribution channel, non-life insurance and the establishment of larger groups of companies, which meant offering all insurance services out of a single office. For Eläke-Varma, the first change took place in 1972, when the pension insurance portfolio of the fifth largest employment pension company, Patria, was transferred to Eläke-Varma in conjunction with the reorganisation of Fennia Non-Life Insurance Company's operations. Patria was owned by Fennia. Eläke-Varma's insurance portfolio grew and distribution network improved as Fennia's offices around the country began to also serve Eläke-Varma's customers. Eläke-Varma, Teollisuusvakuutus and Fennia began to take shape as one insurance company group, with each company, however, retaining its autonomous status more clearly than the companies in the competing groups.

In terms of today's Varma, a more significant change took place in 1983, when the limited company Eläke-Sampo (Pension-Sampo) was formed. It involved a plethora of mergers and acquisitions. Non-life insurance company Sampo had holdings in two employment pension companies: Ilmarinen and the third largest employment pension company, Kalervo. Sampo first broke away from Ilmarinen and then established Eläke-Sampo. Shortly afterwards, Yrittäjien Vakuutus and Fennia merged, and Kalervo's pension policies that had come through Yrittäjien Vakuutus were transferred to Eläke-Varma. A small share of Kalervo's insurance portfolio went to Ilmarinen. Kalervo's operations ended in early 1985, when Sampo transferred Kalervo's earnings-related pension policies that it had acquired through Sampo to Eläke-Sampo.

The establishment of clearer insurance company groups than before was also related to the fact that Eläke-Varma, together with Teollisuusvakuutus and Yrittäjäin Fennia, established the life insurance company Nova, which launched its operations in 1987.

The third restructuring phase was related to a wider upheaval in the financial sector and the corporate world which resolved the problems created by earlier decisions and crossed traditional barriers and, under the pressure of internationalisation, the insurance sector, like other business sectors, set its sights on ever-larger units. The trigger for restructuring was linked to the casino economy of the latter half of the 1980s. Eläke-Varma participated in a Union Bank-led group called Finanssilaitos, which acquired a significant stake in Union Bank and Sampo in a financial game between large commercial banks and other investors. Insurance distribution channels once again became an issue. Eläke-Varma wanted to secure its own position in the changing circumstances.

In the subsequent years, saving the troubled Finanssilaitos and the broader reorganisation of the insurance company sector were interwoven. Leading up to the merger of Eläke-Varma and Eläke-Sampo was a series of rather unusual events that lasted for years. Eläke-Sampo's executive management and the trade union movement representatives that were part of the company's administration interpreted the situation as a struggle over the company's existence and how employment pension funds could be used. In 1993, Eläke-Varma became a co-owner of another earnings-related pension company, Eläke-Sampo. The eventful period that was partly related to the restructuring and the allocation of Eläke-Kansa's insurance portfolio to other employment pension companies following the bankruptcy of the Kansa companies, which were closely linked to the labour movement, contributed to clarifying the independent status of employment pension companies in the Act on Earnings-Related Pension Insurance Companies that took effect in 1997.

After numerous events, the mutual companies Varma-Sampo and Eläke-Fennia (Pension-Fennia) that emerged out of Eläke-Varma and Eläke-Sampo started their operations in July 1998. The legislation had been clarified and the aim was to finally put an end to the long-standing confusion. Employee organisations also pushed through many of their key demands. The restructuring elucidated the corporate structure of the insurance business, as the Sampo and Fennia groups received not only non-life insurance partners, but also partners in earnings-related pension and life insurance. For many of the employees, the restructuring proved to be one of the most important experiences of their career. The fact that all employees retained their jobs in the restructuring, however, was not insignificant. After all, an entirely new type of mass unemployment among white-collar workers was experienced in the recession of the 1990s.

Varma-Sampo changed its name to Varma at the end of 2003. The name change reflected the earnings-related pension company's independence and its split from Sampo, which was expanding abroad but still remained Varma's guarantee capital owner. After several years had passed since the restructuring, the activities with the longest roots in the company's history could once again be highlighted. Various interpretations of Varma's "true" roots, however, existed for a long time. One part of Eläke-Varma's history was transformed yet again in 2014, when Eläke-Fennia and Lähi-Tapiola Eläkeyhtiö (LocalTapiola Pension) merged to form the pension insurance company Elo.

The earnings-related pension scheme and Varma's history in many ways mirror society's structural transformation – the shift from an industrialising agrarian society to an industrialised service society. Pension accruing from pay and defined by salaries offered a new kind of security compared to old forms of income. Aging, deteriorating work ability and the death of a family provider were prepared for collectively by means of employment pension contributions deducted from employees' salaries. The division of labour and the segregation of tasks in society are reflected in the fact that companies

wanted more and more to outsource an activity that was not part of their core operations, i.e. pension provision, to the specialist companies that were implementing it. In the beginning, employers paid the full amount of the earnings-related pension contribution, but since 1993, the contribution has also included an employee's share.

Right from the start, earnings-related pension cover was implemented using the latest technology, massive computers. They brought efficiency to the process and increased the reliability of pension provision. Computers also increased co-operation between companies, as it did not make sense for all companies to purchase expensive computers and systems. The collaboration surrounding computers also influenced how insurance company groups were formed. Automated data processing and the joint systems of employment pension companies also gradually exposed the tension between making full use of economies of scale and the decentralised implementation of the earnings-related pension scheme that was originally agreed in the 1960 Pension Committee. The complicated and costly systems also in themselves steered the development of the system.

Society's transformation was also reflected in other ways in Varma's operations and in those of its predecessor companies. The tasks performed in a pension company consisted of white-collar work, and women formed the majority of pension insurance companies' employees. Society was undergoing a "white-collarisation", and women's paid work was increasing. The growing pension institute offered new jobs during a period of rapid structural change. As competence and experience accrued, the organisations implementing statutory social security offered diverse work and opportunities to advance. Pension insurance companies offered a safe and, for many, lifelong job. Pension companies, like the rest of society, also had a gender-based hierarchy in which the senior directors were mostly men and the people executing the work were women. A clear change and more equal opportunities have emerged in the 2000s, but even long before then, women were already handling expert tasks and lower-level management positions.

Varma and its predecessor companies focussed on expertise. Even before the statutory earnings-related pension scheme, the reliability of the insurance business and its cost-effectiveness from the customer's point of view, often justified with calculations complicated to laymen, were impressed upon policyholders and future pensioners. The data-based approach was also apparent in that statistical studies were carried out early on using the material accumulated through pension insurance. During the time of statutory pensions, from the 1960s on, the top expertise in complicated systems was focussed on the system's implementing organisations.

Employment pension companies employed specialists from many fields, such as mathematicians, lawyers, doctors and IT specialists, as well as professionals in customer acquisition, rehabilitation, social science, communications and investment. The complicated systems required thorough training, and overseeing an institution that was important for the livelihood of everyone in society came with responsibility. It was also a question of the expert power that maintains and protects the system, not solely a positive feature for the development of society as a whole. Another interesting historical note is that, as in many other industries, Eläke-Varma also employed former military officers during the company's early years. Wartime experiences brought leadership skills and social networks. Also in management, both a more general societal transformation and the requirement for competence that was not tied to a specific era could also be seen. There was a shift from silo management to general leadership.

The earnings-related pension system has become one of the most sustainable forms of corporatism, reflecting the societal influence of interest groups. This has been apparent in both pension negotiations concerning reforming the system and pension companies' governance. Central

employer and employee organisations initially justified their status by arguing that they were part of the pension committee preparing the earnings-related pension legislation in the latter half of the 1950s, and pension was considered an extension of the employment relationship. The general increase in employment pensions in the mid-1970s and the division into earnings-related and national pension schemes that was agreed on around the same time resulted in the earnings-related pension scheme becoming the most important pension scheme for many. Later, as society was changing, interest groups repeatedly agreed in their joint negotiations on reforms concerning the earnings-related pension scheme, which upheld their legitimacy in the system. When wage-earners' earnings-related pension contributions were agreed on at the start of the 1990s recession, employee organisations demanded a stronger role also in employment pension companies' governance. The organisations' contract-based participation in the governance of employment pension companies was also incorporated into the Act on Earnings-Related Pension Insurance Companies in 1997. The long-lasting effort to restructure employment pension companies came to an end when the employee organisations' role was secured in the governance of two new companies, Varma-Sampo and Eläke-Fennia. The labour market organisations have held on to or even strengthened their position in the earnings-related pension scheme in the 2000s. One reason for this is several pension reforms that have supported the more general goal of lengthening people's working careers.

Higher earnings-related pension contributions, the growth in employment pension companies' investment assets and the aging of the population ensure that the earnings-related pension scheme and employment pension companies retain their societal importance also going forward. Besides pensionable age, a great deal of attention in the 2000s has focussed on earnings-related pension companies' investment assets. As early as in the 1950s, Eläke-Varma invested funds in its client companies, and the automatic premium lending of earnings-related pension contributions was an essential element of the earnings-related pension scheme's first decades. It was important for the companies that were the company's customers and the employer organisations that the earnings-related pension scheme – in addition to providing pension cover – also otherwise served business and industry and, in a capital-poor country, companies' financing needs. With the change in the investment operating environment, Varma and other employment pension companies alike have become global investors. The operations of earnings-related pension insurance companies and the sustainability of the earnings-related pension scheme are increasingly appraised on the basis of investment returns.

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