SMALL MUTUAL INSURANCE COMPANIES: CHALLENGES, SOLUTIONS, AND OPPORTUNITIES

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The National Association of Mutual Insurance Companies consists of nearly 1,500 member companies, including six of the top 10 property/casualty insurers in the United States. NAMIC member companies write $391 billion in annual premiums and represent 68 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets.

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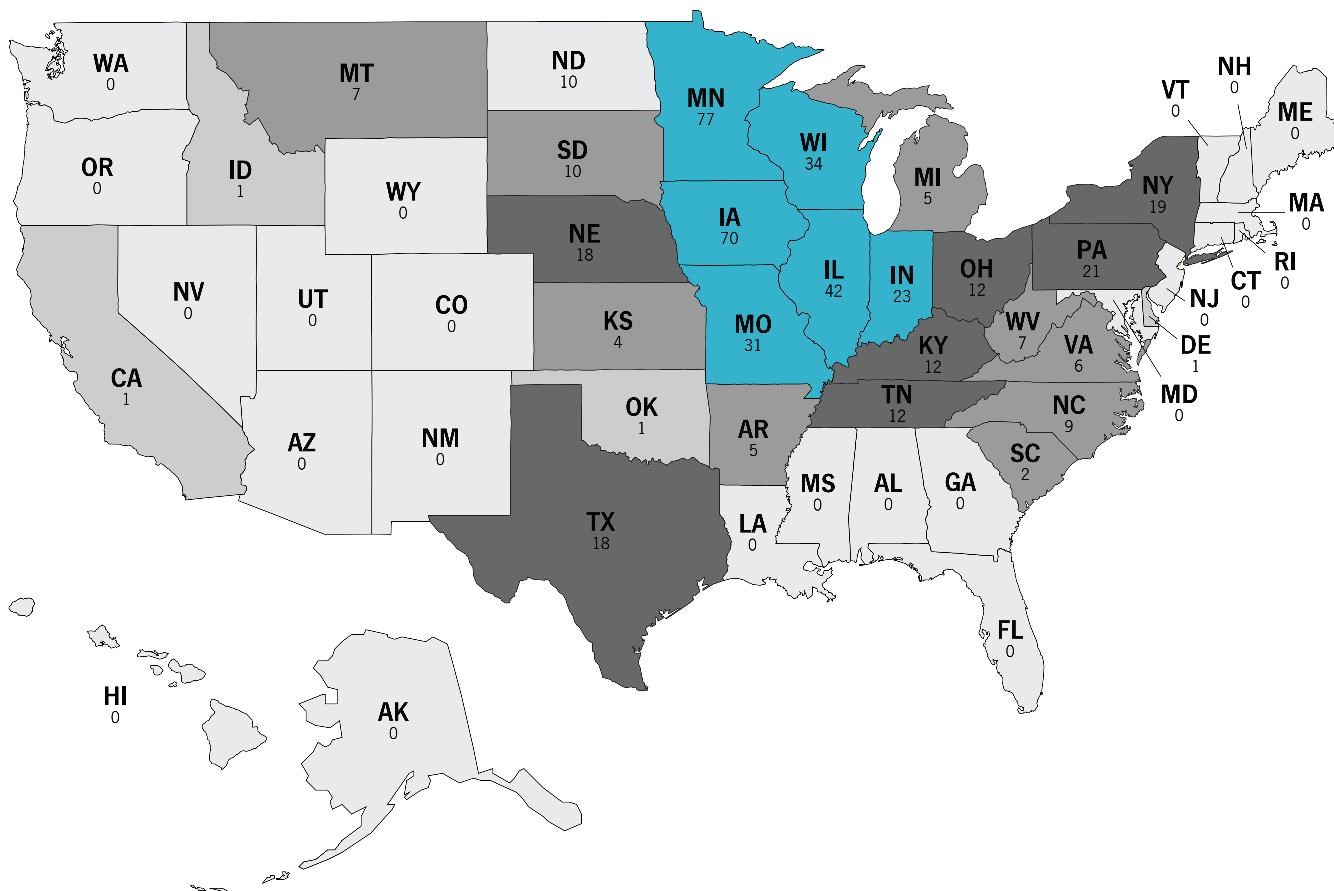
INTRODUCTION

Small mutual insurance companies have a rich history in the United States, deeply rooted in the agricultural and rural communities of the 19th century. These companies, sometimes known as town, county, or farm mutuals, were established to provide affordable insurance solutions tailored to the needs of local farmers and residents. For the purposes of this paper, we will consider small mutuals statutorily authorized to write only specific lines in specific territories and refer to the companies as "county mutuals."

Figure 1: County Mutuals per State, 2023[1]



[1] The sample was collected by NAMIC as a survey of county mutual insurance companies operating in 2023. Many of these companies do not report data to regulators, making secondary sources (e.g., NAIC statement data) incomplete.

Many county mutuals are small, with total premiums written ranging from $50,000 to $30 million and have limited geographic diversification. In recent decades, they have evolved with modern insurance regulation by partnering with specialized reinsurance companies that provide capital, diversification, and expertise. In 2023, capacity changed in its ability to offer historical levels of reinsurance, and this dynamic is changing who and how reinsurance partners interact with small mutuals, particularly in the Midwest.

Since 2021, the number of county mutuals operating has decreased by at least 169, mostly from merging with other mutual insurers. The price of reinsurance continues to exceed historical levels, and county mutual premiums have typically not kept pace with inflation rates.

This report describes a path forward for county mutual insurers, including minimum thresholds for operating capacity as they transition to be less reliant on reinsurance. It also presents several arguments for why it is important to preserve county mutual insurers in their communities. As described in more detail below, county mutuals insure otherwise underserved populations with distinct needs in rural areas. They also serve their local communities in ways that improve risk management and quality of life for residents. It is not clear that other insurance companies will rush to serve markets with the same offerings if county mutuals close.

HISTORY AND DEVELOPMENT OF COUNTY MUTUAL INSURANCE COMPANIES

The first county mutual insurer was Farmers' Mutual Fire Insurance Company of Vermont, established in Montpelier, Vermont, in 1825.[2] In the ensuing decades, county mutual insurance companies were formed throughout the rural Midwest in response to local farmers' and business owners' interest in partnering with businesses closer to home than the available companies in more distant or urban areas.

County mutuals were deeply embedded in the communities they served, often formed by local farmers to protect their properties from risks like fire, hail, and storms. This close connection to the community helped them build trust and maintain a stable policyholder base.

Operating in a mutual model allowed these companies to keep costs low, as they were owned by the policyholders themselves. Profits were either returned to policyholders or used to reduce future premiums, which helped maintain financial stability.

Most early county mutuals started as post-assessment mutuals, meaning that premiums were paid at the end of the policy period based on the amount of losses incurred by members. By the turn of the 20th century, policyholder preferences and state regulations led them to convert to prefunded insurance models, which place residual risk on the insurance company rather than the policyholders. In a prefunded insurance model, like virtually all insurance companies today, policyholders pay a fixed premium and insurers hold capital to ensure their ability to pay claims.

In the first half of the 1900s, county mutuals turned to specialized reinsurance companies, like Grinnell Reinsurance and other competitors, to meet the increasingly complex risk management and capital requirements of modern insurance coverage and regulation. This allowed them to manage larger risks and provide more comprehensive coverage, leading to greater stability and the ability to weather larger claims.

[2] Vermont Historical Society

As state regulations evolved, county mutuals adapted by improving their financial practices, adopting more rigorous underwriting standards and ensuring compliance with solvency requirements. This helped them remain viable and competitive in a changing insurance landscape.

The post-World War II economic expansion in the U.S. provided a favorable environment for growth, as rising incomes and increased property ownership in rural areas led to greater demand for insurance. County mutuals benefited from this growth, expanding their coverage and services.

THE ROLE OF COUNTY MUTUAL INSURANCE COMPANIES IN RURAL AREAS

The average county mutual is small, but the cumulative capacity provided by these insurers is substantial. In 2022, our sample of county mutuals wrote $1.37 billion in premium with a combined surplus of $2.69 billion.[3] Collectively removing these companies from the market would be the equivalent of removing a single insurer in the fifth percentile of premium size and the third percentile of surplus holdings. Given that the policies written by county mutuals are relatively small (average premium = $1,142) and located in high-hazard areas, a cumulative disturbance in rural insurance markets would leave many families and farmers needing to find new insurance products at likely higher costs.

In the four states with the largest county mutual markets, county mutual insurers control a substantial portion of the rural home and farm insurance markets. Figure 2 shows the number of policies and rural market share of county mutuals in Iowa, Illinois, Minnesota, and Missouri.

Figure 2, Rural Market Share, 2022[4]

State	Policy Count	Rural Market Share
Iowa	182,019	37.2%
Illinois	65,116	9.3%
Minnesota	119,365	17.9%
Missouri	93,705	12.0%

Note: Rural market share is the number of policies from our survey divided by the number of rural households in each state.

[3] The sample was collected by NAMIC as a survey of county mutual insurance companies operating in 2022. Many of these companies do not report data to regulators, making secondary sources (e.g., NAIC statement data) incomplete. Although this sample includes less than half of the county mutuals operating in 2022, it includes the largest firms by premium written.

[4] NAIC Annual Statement Data, U.S. Census Bureau, Survey of County Mutual Insurance Companies.

CURRENT CHALLENGES FOR COUNTY MUTUALS

County mutual insurers face three related challenges in the current market. They are small, they are concentrated geographically and by line of business, and they rely heavily on reinsurance. The recent contraction in reinsurance markets puts additional pressure on those challenges.

COMPANY SIZE AND SCOPE

The average county mutual is very small compared to other insurance companies, with $3.3 million in written premium and $6.7 million in policyholder surplus. While they can vary widely in size and complexity, as demonstrated in Figures 3, 4, and 5 below, the average county mutual is about 1% of other U.S. insurance companies in terms of premium and surplus. Another striking difference is the number of states in which companies operate. The average insurer writes business in 19 states, while county mutuals are typically, by definition, limited to one state.

Figure 3, Size Distribution of County Mutuals Compared to Property/Casualty Industry, 2022

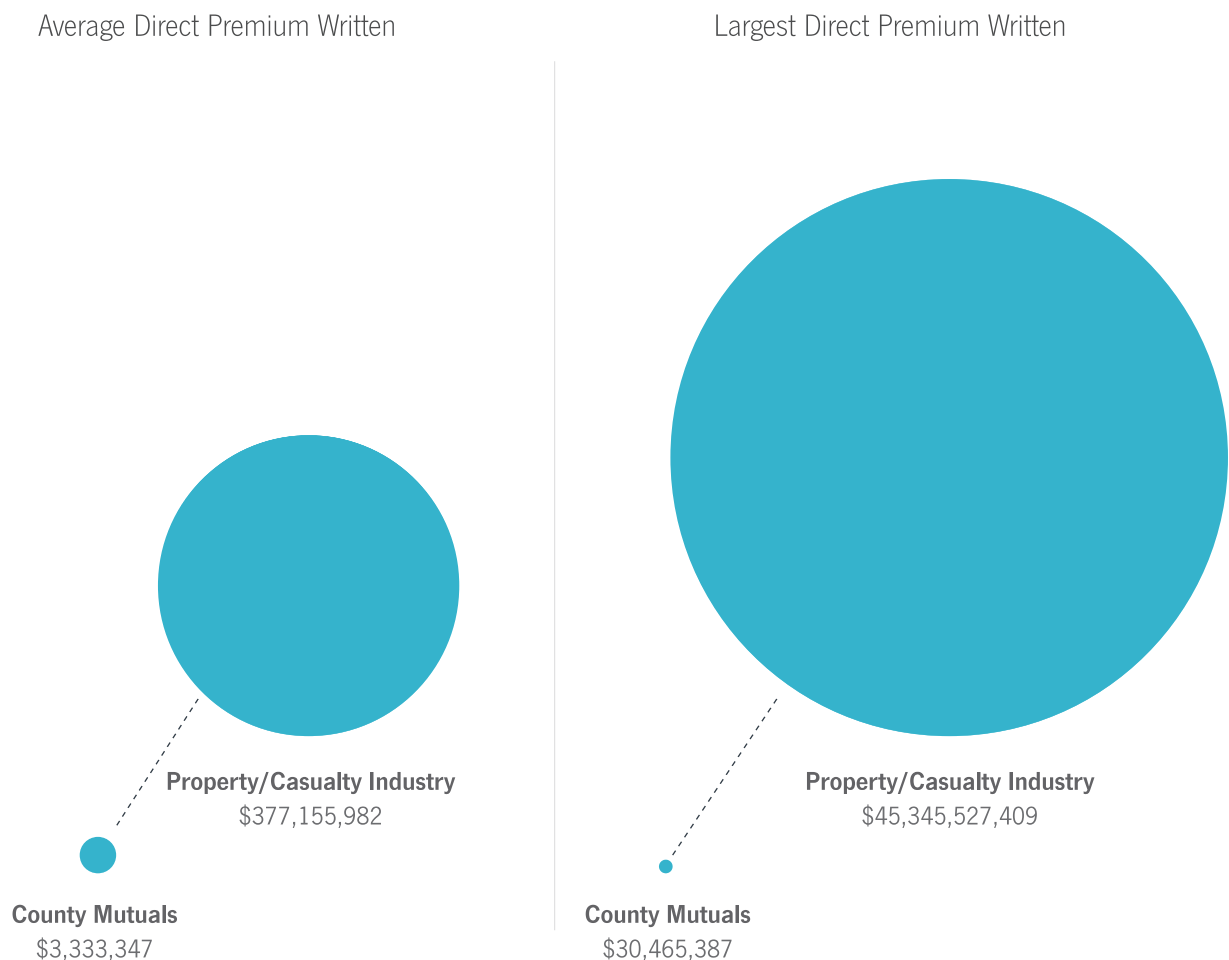


Figure 4, Size Distribution of Companies by Percentile[5]

Direct Premium Written		
	County Mutuals	**Property/Casualty Industry**
25th Percentile	$1,009	$11,416
50th Percentile	$1,888	$63,593
75th Percentile	$3,875	$277,029
95th Percentile	$11,365	$1,579,387

Figure 5, Size Distribution of County Mutuals Compared to the Property/Casualty Industry, by Percentile

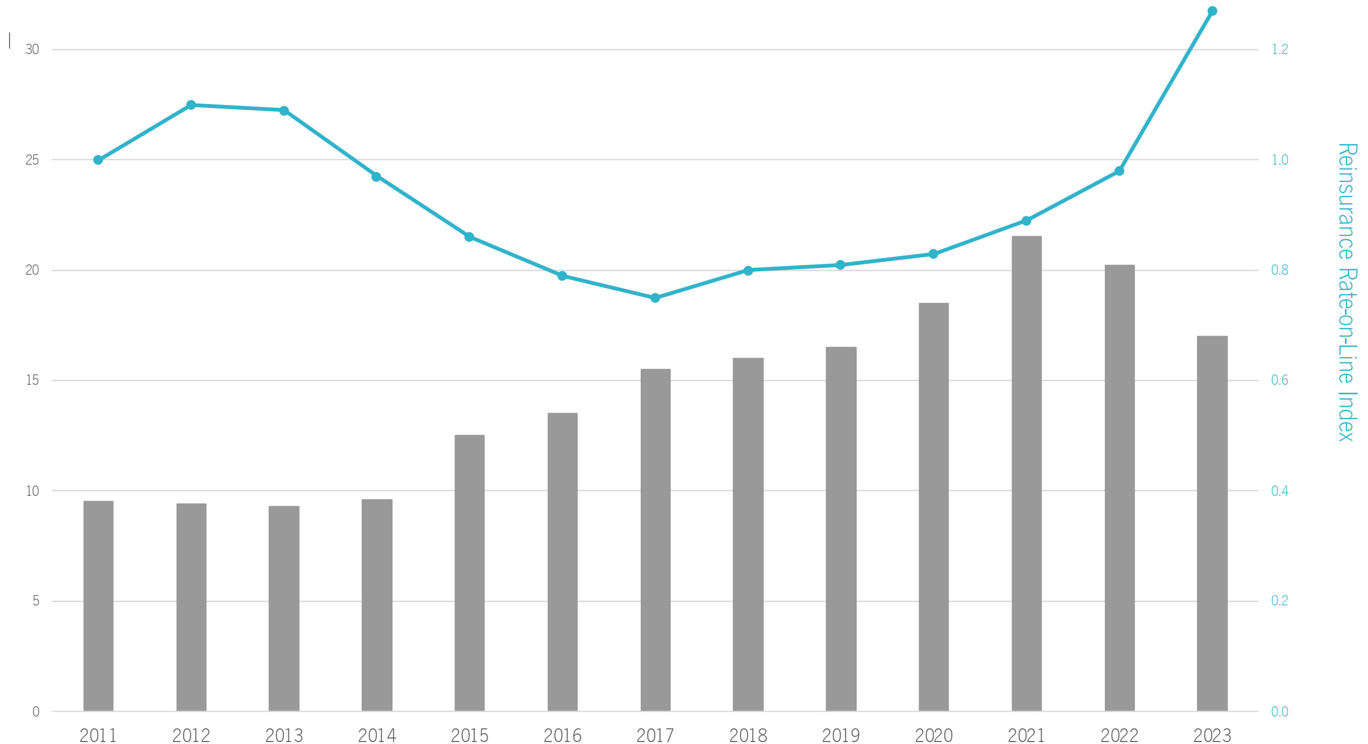
Direct Premium Written		
	County Mutuals	**Property/Casualty Industry**
5th Percentile	$259,623	$643,255
10th Percentile	$458,378	$2,596,259
25th Percentile	$1,008,957	$11,415,625
75th Percentile	$3,875,220	$277,029,221
90th Percentile	$7,899,469	$846,096,691
95th Percentile	$11,365,473	$1,579,386,578

[5] NAIC Annual Statement data and a survey of county mutuals.

RELIANCE ON REINSURANCE

County mutual insurers rely more heavily on reinsurance than do other insurers, owing in part to some states' regulatory requirement for them to do so. County mutual insurers in our sample ceded 31.6% of direct premiums to reinsurers in 2022. In comparison, the average insurance company writing homeowners and farm owners insurance ceded only 12.7% of premiums. Beyond the difference in average ceded premiums, many of the smallest county mutuals have historically been fully reinsured for net losses at a regulatory attachment point. This means that at a certain point of loss, for example $1 million in the aggregate, reinsurance would cover 100% of the remaining loss. This reliance on reinsurance and the limited scale and scope of county mutual insurers, along with a contraction in reinsurance and risk capital markets, define the acute problem they face. Not only do many county mutuals rely heavily on reinsurance from a small group of specialized carriers, but those carriers also rely heavily on the broader reinsurance market.

Similar to average insurance companies, county mutual insurers are exposed to fluctuations in global reinsurance markets directly and indirectly through their reinsurance providers.



Note: Market share assumed is the percentage of total county mutual reinsurance ceded assumed by each reinsurance company. Reinsurance ceded is the percentage of total premium ceded by each reinsurance company.

REQUIRED EXPERTISE

Many county mutuals do not write enough premium to afford the expertise required to operate a larger insurance company within a reasonable expense ratio. For example, the median county mutual writes just under $1.9 million in direct premium. Employing at least one person in each role (underwriting, claims, ratemaking, legal, financial, IT, and accounting) at competitive salaries could easily exceed a 50% expense ratio before covering commissions or taxes. Because a modern independent insurance company requires expertise in each function, at least half of the county mutuals of 2022 must grow to survive on their own.

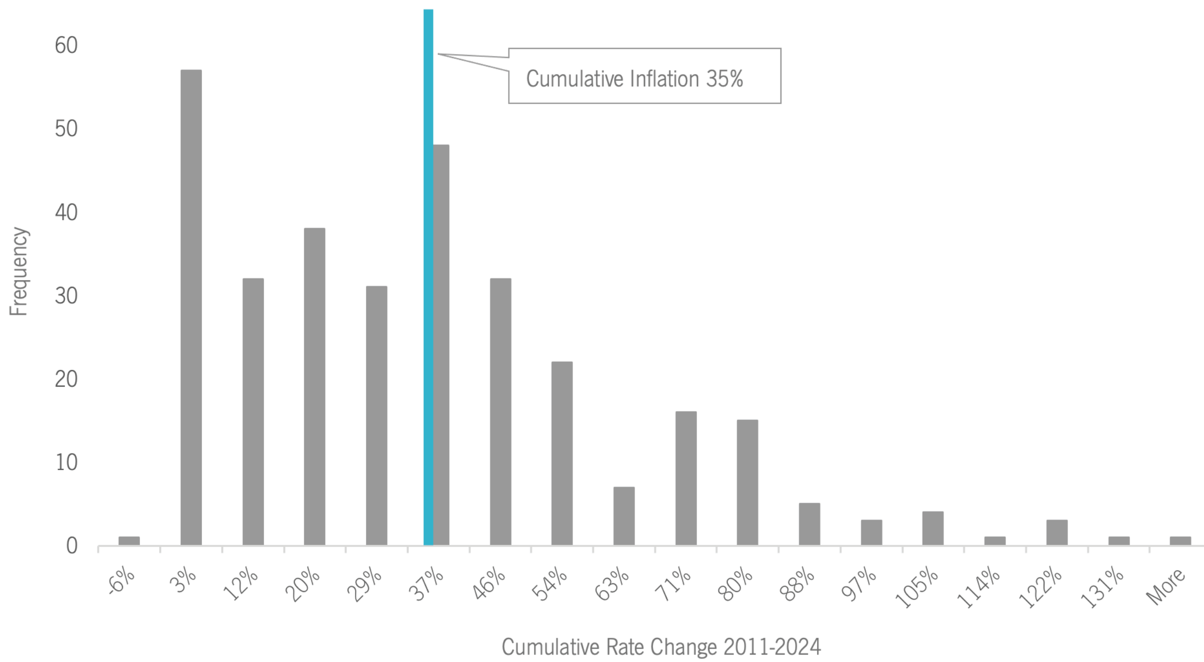
A small number of employees also raises concerns about conflicts of interest and adverse selection. Many of the smallest county mutuals have only one or two employees, sometimes family members, who perform all functions of the insurance company. This scenario can preclude the checks and balances in modern accounting systems, in which different individuals receive and dispense funds. Another potential problem occurs when the sales agent is also responsible for claims. Agents are compensated with commissions as a percentage of premium revenue, which is not affected by losses paid. This dynamic may cause potential conflicts of interest for the company's long-term success.

Ratemaking deserves additional attention in this category, as county mutuals appear to have underestimated increases in exposure during the last decade. Between 2011 and 2024 the U.S. experienced 231 billion-dollar events, costing $1.5 trillion (CPI adjusted) compared to 127 events costing $958 billion in the 20 years prior to that (1991 to 2010). And in the short time between 2020 and August 2024, we have already seen 107 billion-dollar events costing Americans to more than $611 billion.[6]

Using survey data from 317 county mutuals over the period 2011 to 2024, Figure 7 shows that the rate increases of nearly 63% of these firms have not kept up with basic inflation (35%). Moreover, 15% of county mutuals in the sample did not increase rates at all during this period. Given the limited scale of many county mutuals, it is likely that some firms can get away with inadequate rates over short periods. However, the poor loss experience in recent years suggests that adverse selection and inadequate rates have now had a sustained impact.

[6] NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2024) https://www.ncei.noaa.gov/access/billions/

Figure 7, Distribution of Cumulative Rate Increases, 2011-2024[7]



Note: The figure is a histogram showing the number of county mutuals in each bin that changed rates by the percentage on the X axis between 2011 and 2024. The cumulative rate change is calculated as the product of 1 plus the rate change each year over all years.

[7] Survey of 317 county mutual insurance companies and U.S. Bureau of Labor Statistics.

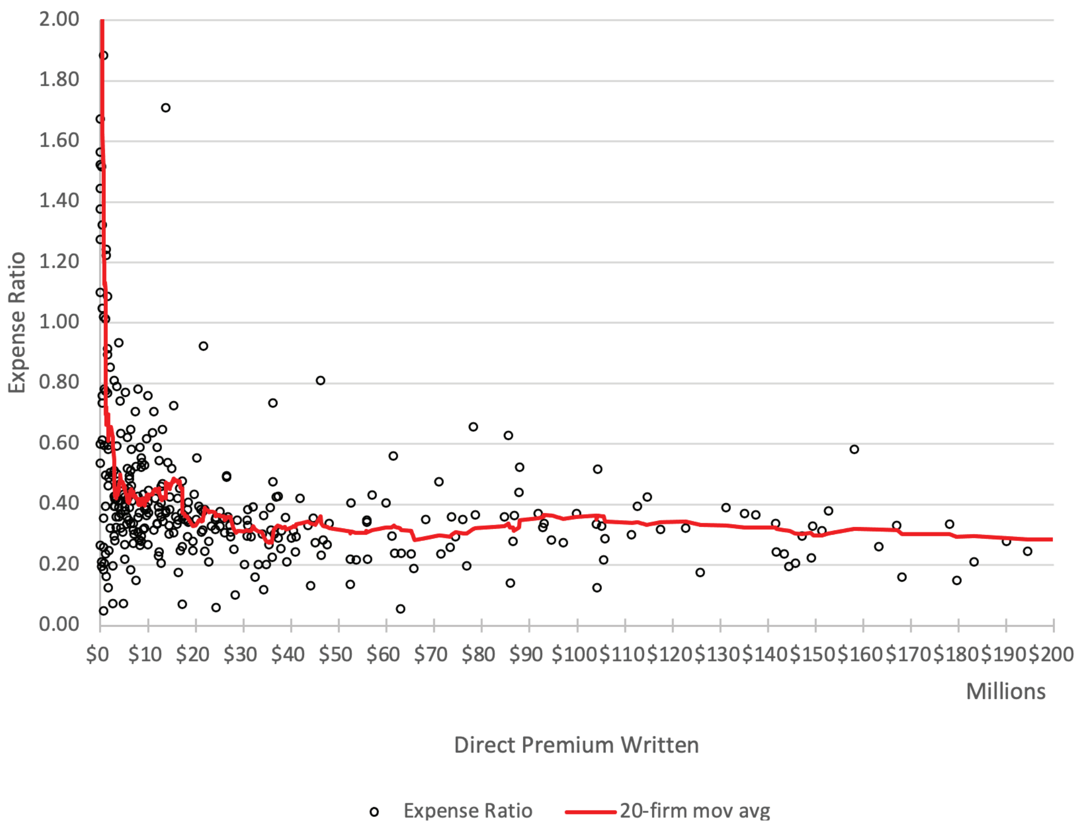
POTENTIAL STRATEGIES FOR COUNTY MUTUALS

Despite the recent change in market conditions, county mutuals have a bright future. Much like the previous pivots to nonassessable policies in the early 1900s and reinsurance partnerships forged in the 1950s, today's county mutuals must adapt to the market.

Some county mutuals already operate as standard insurance companies with their own human and financial capital. These strong leaders demonstrate the potential for county mutuals to grow and thrive.

The smaller firms will need to achieve a combination of consolidation, efficiency gains, and expansion. Each of these strategies can be facilitated by third-party consultants and NAMIC partner resources as part of a strategic planning process.

Figure 8, Expense Ratio by Direct Premium Written[8]



Note: Expense Ratio is expenses divided by direct premiums.

[8] NAIC Annual Statement data, 2023

Figure 8 graphs expense ratio versus direct premium written for the 340 unaffiliated U.S. P&C insurance companies writing less than $200 million in direct premium in 2023.[9] The red line is a 20-firm moving average of the expense ratio. The moving average is consistently below 40% once direct premium exceeds about $15 million.

The first strategy for county mutuals is consolidation, in which multiple insurers combine into one larger insurer. This can happen through mergers or contractual affiliation. With consolidation, each company gains capital and geographic diversification. We have already seen substantial consolidation among county mutuals in the last three years. In order to preserve the largest amount of county mutual capacity, additional consolidation will be necessary. However, examples exist where the resulting community of companies proves more strategically solvent and in a stronger position to serve policyholders. Affiliations, where appropriate, additionally may provide opportunities for preservation of historical names, branding, etc.

River Valley Mutual presents a recent example of the consolidation strategy. Originally organized in Whitehall, Wisconsin, in 1871, River Valley represents a combination of 10 county mutual insurers. In 2022, before the most recent consolidation, it had $2.9 million direct premium written and $3.8 million in surplus. In 2024, River Valley consolidated eight more county mutuals, growing to $10 million in premium and $18 million in surplus. The increased bulk allowed all parties to the consolidation to assimilate broader reinsurance options for partnership moving forward. Similarly, Mt. Morris Mutual merged or affiliated with nine Wisconsin county mutual companies in 2024. Mt. Morris now totals more than $40 million in premium and $31 million in surplus.

Additional consolidation presents an opportunity to optimize decisions and processes. The typical pattern of consolidation is to merge the mutuals in neighboring counties. However, this strategy provides the smallest possible benefit for geographic diversification. As we saw last year in Wisconsin, a large loss can topple even large insurers with limited geographic spread of risk (Zawacki, 2023). Given the modern communication technology available at very little cost (e.g., Zoom and Teams), geographic distance is less of a barrier to operations than ever before. To the extent allowed by statutes, county mutuals should consider innovative and broader partnerships. Consolidation should also be guided by leading-edge risk assessment tools, including catastrophe models.

Another form of consolidation is for insurers to affiliate via contractual resource and reinsurance pooling. By centralizing functions like finance, accounting, compliance, and actuarial pricing and reserving, county mutuals may retain autonomy over local underwriting and claims functions. This creates substantial efficiencies, while preserving the local nature of these firms. As noted above, Mt. Morris Mutual has consolidated with other insurers using both merger and affiliation methods.

The second strategy is to improve the efficiency of county mutuals. By improving efficiency, the firms can maintain more local autonomy because they can afford to perform all functions of a sustainable insurer within a reasonable expense ratio. One example of potential efficiency gains is through the use of fractional professional services. Several firms specialize in providing actuarial, accounting, financial, claims, and underwriting services for less than the cost of hiring individuals to perform each function. This scenario allows the county mutuals to afford a full suite of professional services at a fraction of the cost. For example, a firm that hires one accountant or financial professional cannot implement accounting and fraud controls like multiple signatures on payments.

[9] Risk retention groups, captives, and surety companies are excluded because their expense structures are not comparable to standard property and liability insurers. Captives and RRGs do not incur production expenses, and surety firms are designed to have much higher expense ratios.

For approximately 65% of the cost of hiring a full-time professional, a smaller firm can hire a full team of accounting professionals (financial planning, bookkeeping, regulatory filing, etc.) on a part-time basis.

The final strategy is expansion. Once county mutuals have achieved sufficient scale and scope, those with appropriate capital and business practices can potentially expand their geographic footprints and write more premium in more places and lines of business. This strategy will require substantial investment to obtain regulatory approval and licensing, additional expertise, and sales channels in new places. Moreover, larger and multistate insurers are expected to maintain more sophisticated risk management practices, such as enterprise risk management programs and own-risk solvency assessments.

Importantly, these strategies are not mutually exclusive. In fact, an optimal approach is for county mutuals to consider consolidation, efficiency gains, and expansion as primary goals of a multiyear strategic plan.

SUMMARY AND CONCLUSIONS[10]

County mutual insurance companies have played an important role in rural areas since the first half of the 19th century. While they are smaller than other companies on average, county mutuals have remained competitive by emphasizing their local knowledge and commitments. They have also adapted to overcome challenges, such as evolving expectations and regulations.

County mutuals are important to the communities they serve. They emphasize the importance of volunteer service with nonprofit organizations and volunteer fire departments. They also provide insurance to underserved rural areas in communities that may prove vulnerable to increasing extreme weather.

Beginning in 2022, a combination of poor loss experience, inadequate rates, and a reinsurance market contraction has resulted in a crisis for many county mutuals. Nearly 20% of the reinsurance market capacity for these firms was lost with the failure of Wisconsin Re in 2023.

In response to these challenges, county mutual insurers must again adapt and overcome. It may prove fruitful for companies to examine abilities to grow direct premium and its resultant ability to gain required expertise and services within a competitive expense ratio. However, a minimum efficient size is not a substitute for comprehensive risk assessment and enterprise risk management programs. Any amount of premium that is exposed to loss from a single event poses great risk. Therefore, it is necessary for insurers to consider direct premiums, diversification, surplus, and reinsurance as part of their overall risk management strategies.

[10] Bissell, Richard E. History of Mutual Insurance in the United States. The Insurance Journal, 1980. Cochran, Thomas C. Insurance in America: A History. University of Pennsylvania Press, 1974. Zawacki, Tim, 2023. Mutual reinsurer's rehabilitation sparks rapid consolidation of niche carriers. S&P Global Market Intelligence. September 26, 2023.

NAMIC FINAL THOUGHTS

Neil Alldredge | President & CEO

We are deeply proud to call members the very largest insurer and the very smallest insurer in America, and every size in between. Like county mutuals, NAMIC has a long history and deep connection to rural communities and the policyholders they contain. We are committed to the continued evolution and success of the small mutual segment within NAMIC. The NAMIC board of directors established a reinsurance task force in 2023 which aims to bring additional resources to small mutuals as we head into 2024.

The National Association of Mutual Insurance Companies consists of nearly 1,500 member companies, including six of the top 10 property/casualty insurers in the United States. The association supports local and regional mutual insurance companies on main streets across America as well as many of the country's largest national insurers.

NAMIC member companies write $391 billion in annual premiums and represent 68 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets.

Through its advocacy programs NAMIC promotes public policy solutions that benefit member companies and the policyholders they serve and fosters greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.

We aim to be your partner as you meet these challenges, just as you have over the course of our nation's history. Please contact us with your questions, concerns and requests of how your membership in NAMIC can assist you and your company.

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