2020
THE MUTUAL FACTOR

How Performance, Structure, and Focus Set Mutual Insurance Companies Apart

NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES
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Empower Results®

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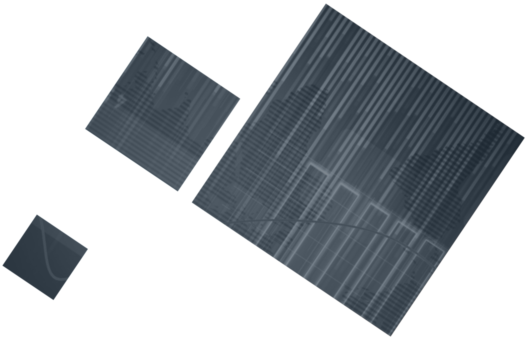
About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement, and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

About NAMIC

NAMIC membership includes more than 1,400 member companies. The association supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies write $278 billion in annual premiums. Its members account for 58 percent of homeowners, 44 percent of automobile, and 30 percent of the business insurance markets.



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FOREWARD

When NAMIC published its first Mutual Factor in 2018, the report was envisioned as a data-driven overview of the key performance metrics of the mutual insurance industry in comparison to others in the insurance space. That first report served as a benchmark for standard metrics and generally showed how well mutuals were doing and how they do things differently than other companies, which gives them a different kind of strength – one that focuses on policyholders above all else. In 2019, NAMIC partnered with Aon to enhance the Mutual Factor, expanding the report to include critically important details on how mutual companies fared under the updated AM Best Credit Rating Methodology framework released in 2017.

This year NAMIC is proud to publish the third annual Mutual Factor Report, again in partnership with Aon, and again, taking the report to another level. In the pages that follow, readers will see similarities to the two previous Mutual Factor reports, but also some significant differences. The reason for that is no surprise as 2020 has been a year like no other, so we felt compelled to acknowledge that. As a result, much of the 2020 Mutual Factor reflects the standard 2019 performance data, which was very similar to previous year. However, the impact of the pandemic in 2020 is too significant to ignore, so some new data is included.

The 2020 Mutual Factor report is supplemented with partial data from the first six months of 2020 to provide a clearer picture of the state of the mutual industry. It also takes a different approach to the survey section. In past reports, the general insurance consumer population and commercial insurance buyers were surveyed to obtain their perspectives on mutual insurers in comparison to other types of companies. The 2020 Mutual Factor report instead sought the insights of those on the front lines of the industry, reflected through the analysis of a series of in-depth interviews with a cross section of mutual company leaders, who shared their thoughts on changes, challenges, and opportunities ahead for our industry.

NAMIC hopes this valuable insight, and the important data in the 2020 Mutual Factor will help all NAMIC members continue to adapt, innovate, and succeed in the months ahead.

EXECUTIVE SUMMARY OF FINDINGS

The property/casualty insurance industry is a massive and extremely competitive business. With more than $600 billion in premiums written in 2019, there are dozens, sometimes hundreds, of insurers competing for policyholders and premium dollars in some markets. Competition breeds diversity in approach to assessment, pricing, and financing of risk. It is that diversity that is one of the insurance industry's greatest assets and a key driver of the industry's enduring strength in the face of often unforeseeable adversity and innumerable challenges.

The roots of modern insurance originate indisputably with mutual insurers – entities organized for the sole benefit of their members. The understanding that mutual risks could be pooled to benefit all members of the pool is a simple and intuitive concept dating back to ancient times and remains just as relevant today. Mutual insurers today compete with other insurers, particularly stock insurers that operate for the benefit of their investors. In recent years, capital markets have sought to play a larger role, particularly in the area of reinsurance.

The different organizational structures within the insurance industry naturally give rise to somewhat different approaches to the management and pricing of risk as well as investment strategies that, in turn, result in differences in operating performance.

The 2020 Mutual Factor report provides evidence of the overall financial strength and stability of the mutual insurance segment as it relates to market performance. The report looks at some distinctions in the key measures of operating performance between mutual and stock insurers and the industry overall during a five-year period through the end of June 2020. In addition, the report analyzes the impact of ratings agency criteria on mutuals and looks at how the mutual industry is perceived by key stakeholders. Nearly 30 metrics are compared across the mutual, stock, and "other" insurer categories. Some of the key findings are:

MARKET PERFORMANCE

In response to the challenges faced by policyholders during COVID-19, we estimated that the industry returned nearly $9 billion in premiums in Q2 2020, with mutual insurers returning $4.5 billion mainly through policyholder dividends, while stocks returned $4.3 billion primarily through premium credits.

In Q2 2020, the policyholder dividend ratio for mutual insurers was 5.8 percent compared to the 1.1 percent in Q1 2020, while the policyholder dividend ratio for stock insurers remained below 1.0 percent for both quarters.

Mutual insurers ran at an underwriting loss as a result of their increased policyholder dividend ratio. The combined ratio for mutual insurers for Q2 2020 was 102.7 percent compared to 98.8 percent for stock companies, which operated at an underwriting profit, aligning with their focus on returns.

Although there was an increase in losses and loss adjustments expenses (LAE), the growth in net earned premium offset these losses and, therefore, resulted in a slightly lower loss and LAE ratio (71.0 percent) compared to 2018 (71.4 percent) for the industry. Mutual insurers recorded loss and loss adjustment expenses of 72.5 percent of premium for 2019 compared to 73.0 percent for 2018, and stock companies came in slightly lower at 70.0 percent for 2019 compared to 70.2 percent in 2018.

Expense ratios remained consistent year-over-year across all segments of the insurance industry, with the expense ratio of mutual insurers and stock insurers being 27.1 percent for 2019 compared to 27.0 percent and 27.2 percent, respectively. The expense ratio is similar for mutuals and stocks on a five-year basis as well. Commission and brokerage expenses as a percentage of premiums written were slightly lower for mutual insurers (10.3 percent) than for stock insurers (11.9 percent) and the industry overall (11.2 percent), which is in line with 2018 results.

In 2019, the industry hit a record $865 billion in capital and surplus, growing 14.3 percent from 2018. Mutual insurers grew by 11.1 percent, while stock companies grew by 17.1 percent. The growth in surplus was mainly attributed to increase in unrealized capital gains and insurer income from the soaring stock market and declining interest rates. Although mutuals had a smaller growth in capital and surplus for 2019, their five-year average growth rate of 5.6 percent, which outperform stocks companies' five-year surplus growth rate of 4.4 percent.

The pace of increase in capital and surplus was nearly four times that of premium growth in 2019, therefore reducing leverage industrywide and thereby increasing the amount of capital standing behind each dollar of premium written. Mutual insurers were slightly more leveraged than their stock counterparts in 2019, with $1.33 in policyholder surplus backing up each dollar in net premiums written compared to $1.35 for stock insurers.

Decreasing and low interest rates remained a challenge for the insurance industry in 2019, with yields on invested assets remaining near 3.0 percent for mutual and stock companies alike, at or close to their lowest levels since the beginning of the financial crisis in 2008. Yields are slightly lower for mutual insurers, suggesting a somewhat more conservative fixed-income portfolio.

Similar to 2018, the return on average surplus for the mutual segment was 5.1 percent compared to 9.9 percent for stock insurers. Mutual insurers typically operate with lower returns on surplus, i.e., equity, because they do not have external shareholders and policyholders benefit in other ways from their relationship with insurers, e.g., policyholder dividends and lower pricing.

MUTUAL AM BEST RATINGS

The 2020 Mutual Factor report includes a study on how mutual companies compare to stock companies under AM Best's Credit Rating Methodology (BCRM). The study includes all rating components throughout the BCRM and, similar to last year's report, shows that mutual insurer ratings compare favorably to ratings of stock insurers. Specific highlights include:

Mutual companies are well capitalized with median Best's Capital Adequacy Ratio (BCAR) at the VaR 99.6 of 59 percent, 10 points higher than stock companies at 49 percent. Ninety percent of mutual companies also have the "Strongest" or "Very Strong" balance sheet strength, compared to 79 percent for stock companies.

Although 84 percent of both mutual and stock companies have an "Adequate" or better operating performance assessment, stock companies show 29 percent higher standard deviation when looking at five-year combined ratio volatility.

Forty-seven percent of mutual companies have a "Neutral" or better business profile, compared to 40 percent of stock companies. Mutual companies also compare better than stock companies in Enterprise Risk Management with 97 percent scoring "Adequate" or better and 90 percent of stock companies scoring the same.

THOUGHT LEADERSHIP AND EXECUTIVE ROUNDTABLE

The 2020 Mutual Factor report surveyed 22 executives across the country from mutual companies of different sizes and lines of business to gain perspective on what challenges the industry currently faces and will face in the future and how they plan to address future opportunities and threats.

Specific highlights include:

In terms of the workplace, most executives do not expect to see their offices at full capacity due to the pandemic. Some believe the prolonged remote workforce may lead to a deterioration of culture established in the office.

As the pandemic continues, leaders are worried that the industry will face public backlash from policyholders. Companies primarily writing workers' compensation or business interruption will be at the forefront of this issue, as policyholders may not be aware that their policies do not cover any losses due to the pandemic.

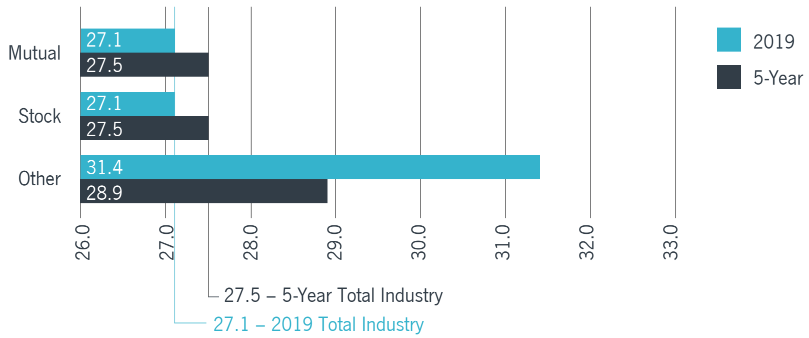
Many executives agreed that the pandemic served as a catalyst and accelerated the pace of technological change. As a result, many predict that digitization and advanced technology may lead to consolidations of smaller companies, as it is predicted that the younger generation will seek to buy simple automobile, homeowners, and some small-business insurance through a direct market.

The executives highlighted the benefits of being a mutual insurer and the commitment mutual insurers place on impacting their communities and to diversity. In response to the unrest protests across America in the wake of the killing of George Floyd, the executives recognized the need to create change and to diversify their workforce.

THE STATE OF MUTUALS

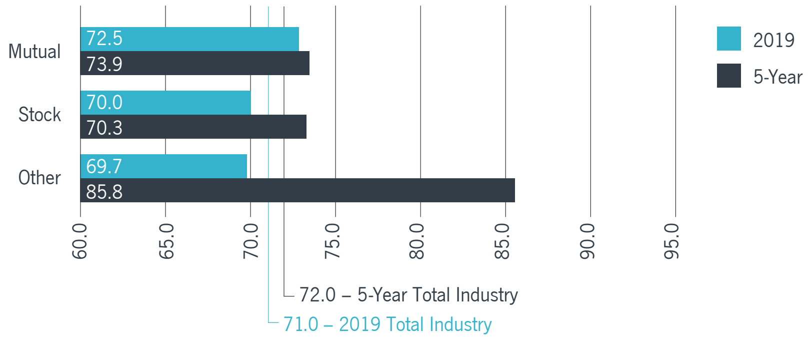
EXPENSE RATIO (%)

The expense ratio of mutual insurers and stock insurers is the same at 27.1% in 2019. On a five-year basis the expense ratio for mutuals and stocks is also the same at 27.5%. This suggests that the expense load for mutuals is competitive with that of stock insurers and the market overall.



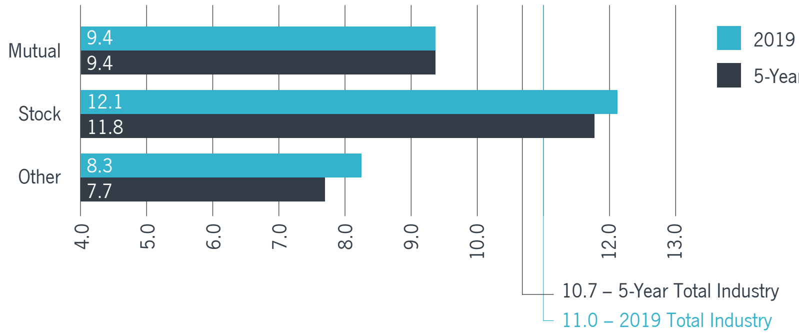
LOSS & LAE RATIO (%)

Mutual insurers typically pay out a higher share of each premium dollar in claims and claim-related expenses, known as loss adjustment expenses or LAE, than stock insurers. In 2019, mutual insurers paid out 72.5% of each premium dollar for claims and claim-related expenses compared to 70.0% for stock insurers. Results are consistent when evaluated on a five-year basis with the Loss & LAE ratio for mutuals at 73.9% and stocks at 70.3%. The higher five-year Loss & LAE ratio for Other reflects elevated losses from workers' compensation state funds.



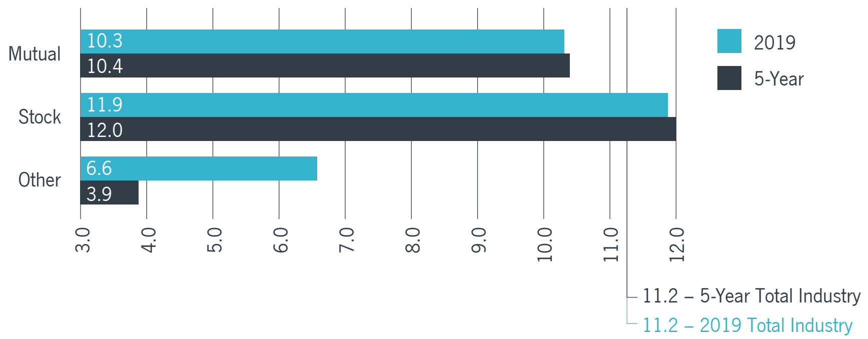
NET COMMISSION RATIO (%)

The commission expense ratio of mutual insurers (9.4%) is 3 points better than stocks (12.1%) for 2019, reflecting the benefit that business mix and type of distribution has on the commission structure for large mutual insurers. Mutual and stocks results are similar on a five-year basis at 9.4% and 11.8% respectively.



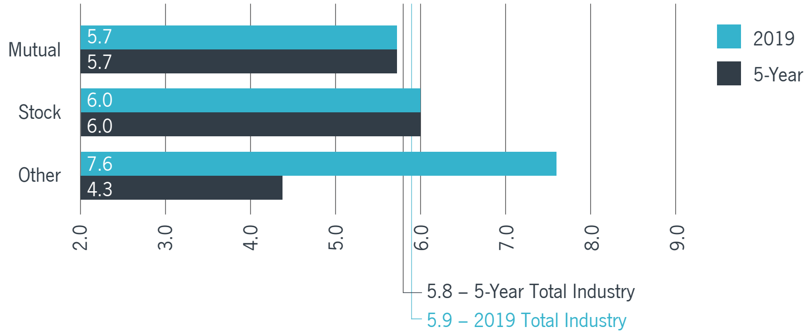
DIRECT COMMISSION & BROKERAGE EXPENSE RATIO (%)

The direct commission and brokerage expense ratio of mutual insurers (10.3%) is modestly better than stocks (11.9%) for 2019, reflecting the benefit that business mix and type of distribution have on the commission structure for large mutual insurers. Five-year results are similar to 2019, with mutuals at 10.4% and stocks at 12.0%.



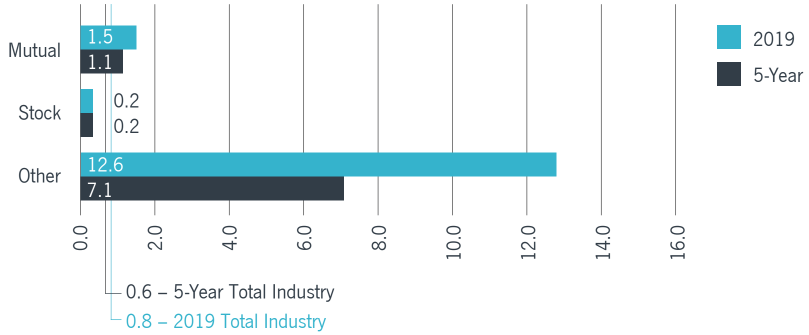
DIRECT GENERAL EXPENSE RATIO (%)

General expenses reflect the cost to the insurer of underwriting and servicing policies. Expressed as a ratio to direct premiums written, this ratio in 2019 was lower for the mutual insurer segment at 5.7% compared to 6.0% for stock insurers and 5.9% for the industry overall. On a five-year basis, the result for mutuals and stocks is the same as 2019 at 5.7% and 6.0% respectively.



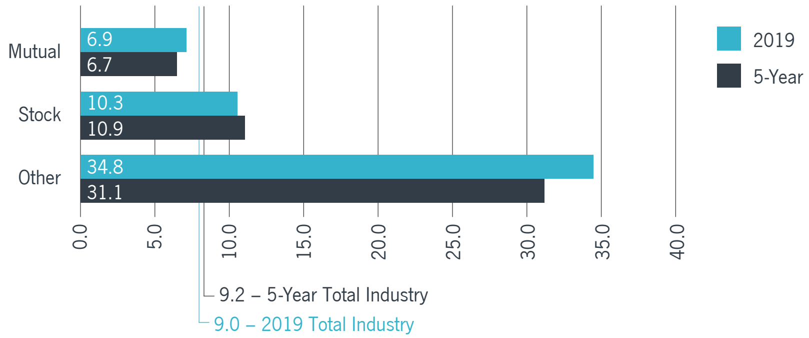
DIVIDEND RATIO (%)

Paying dividends to policyholders is much more common among mutuals than stock companies, reinforcing the fact that mutual policyholders are the sole focus of mutual insurers. In 2019, mutual insurers paid dividends to policyholders equal to 1.5% of net premiums compared to 0.2% for stock companies, with the total industry falling within the median at 0.8%. Dividend payments remained consistent for mutuals and stocks over five years. Policyholder dividends are an important customer retention tool for some mutuals and can also represent a reward and incentive for policyholders who file few, if any, claims..



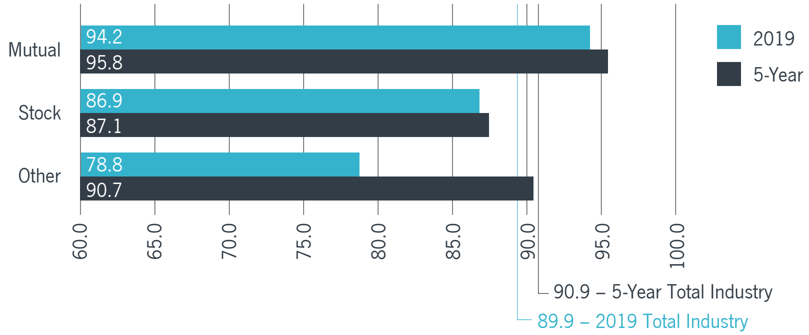
NET INVESTMENT INCOME RATIO (%)

The net investment income ratio for mutual insurers in 2019 stood at 6.9%, below the 10.3% recorded for stock insurers. The same trend can be identified on a five-year average, where the net investment income ratio for mutuals is 6.7%, which is lower than the stocks' 10.9%. The lower figure reflects, in part, the mutual segment's more conservative approach to investing and lower asset leverage. The high net investment ratio for "Other" is a result of state funds and higher asset leverage to back long-tailed reserves.



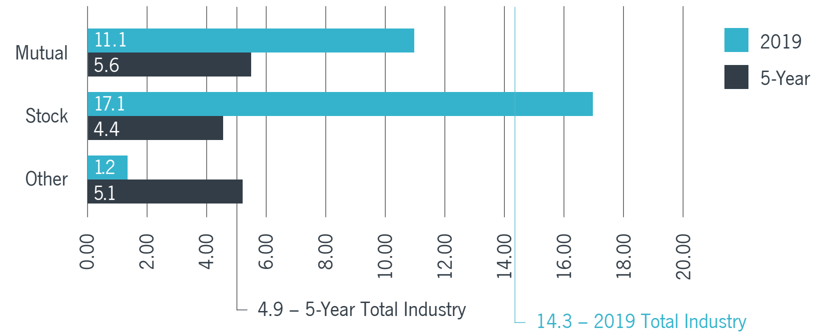
OPERATING RATIO (%)

The operating ratio for mutual insurers in 2019 was approximately 7.3 points higher than for stock insurers. Over the last five years mutual insurers were almost 9 points higher than stock insurers. This emphasizes the combined effects of higher loss ratios and a lower investment income ratio.



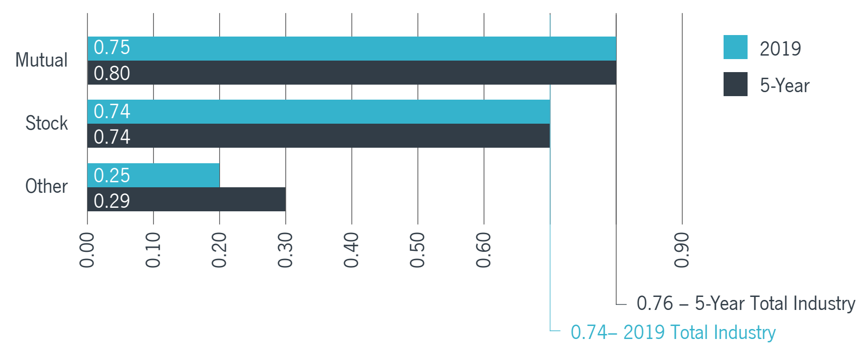
CAPITAL AND SURPLUS GROWTH (%)

In 2019, the entire industry saw an improvement in capital and surplus growth with 14.3%, compared to a 1.0% decrease being recorded last year. The mutual segment grew by 11.1% in 2019 and stock companies grew by 17.1%, compared to an over 3.0% decrease for stock insurers in 2018. The last five years showed positive surplus growth for mutuals (5.6%) and stocks (4.4%). This overall growth was very strong by historical standards and occurred despite heavy catastrophe losses. The industry concluded year-end 2019 with record surplus on hand due to profitable underwriting results, favorable loss development and favorable investment returns from strong equity markets.



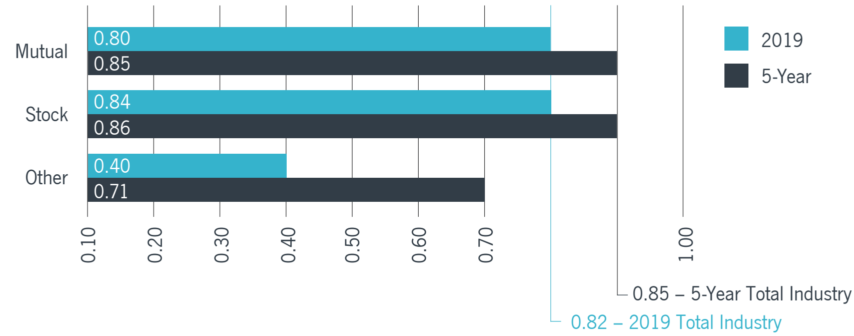
NET WRITTEN PREMIUM TO SURPLUS RATIO (%)

Historically, mutual insurers operate slightly less leveraged than stock insurers. This means that mutual insurers carry more surplus, i.e., claims paying capital, per dollar of net written premium. However, recent trends show mutual insurers having similar or slightly higher leverage than stock companies. In 2019, mutual insurers held $1.33 in surplus for every $1 in net written premiums received, compared to $1.35 for stock insurers. These both compare similarly to the total industry, in which the industry holds $1.35 in surplus for every $1 in net written premiums. This suggests that mutuals and stocks carry adequate surplus.



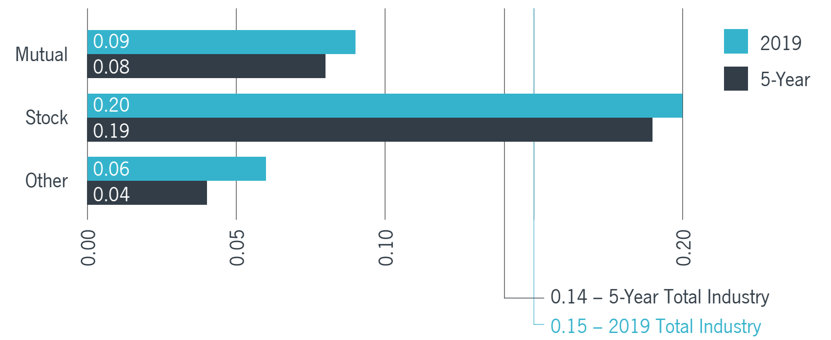
DIRECT WRITTEN PREMIUM TO SURPLUS (%)

Historically, mutual insurers operate slightly less leveraged than stock insurers. However, recent trends show mutual insurers having similar or slightly higher leverage than stock companies. Over a five-year basis, stock insurers held $1.35 per $1 in direct written premium, compared to $1.26 for mutual insurers. Historical trends held true in 2019, with mutual insurers operating less leveraged as they held $1.24 per $1 in direct written premium compared to $1.19 per $1 in direct written premium for stock insurers.



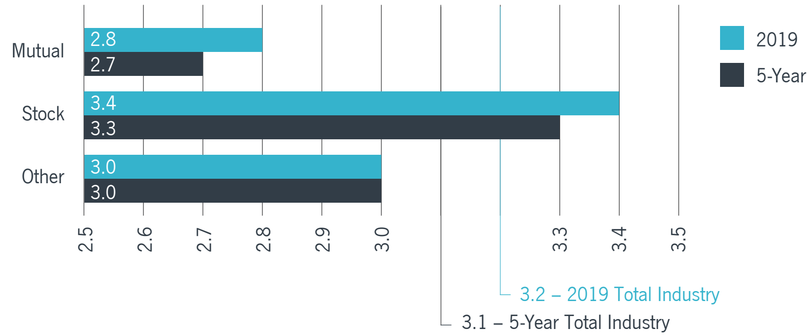
CEDED-TO-DIRECT WRITTEN PREMIUM RATIO (%)

Ceded-to-direct written premium shows how much reinsurance is purchased relative to a company's direct writings. Mutual insurers are ceding under 10% of their direct writings, while stock companies are ceding about 20% for 2019 and on a five-year basis.



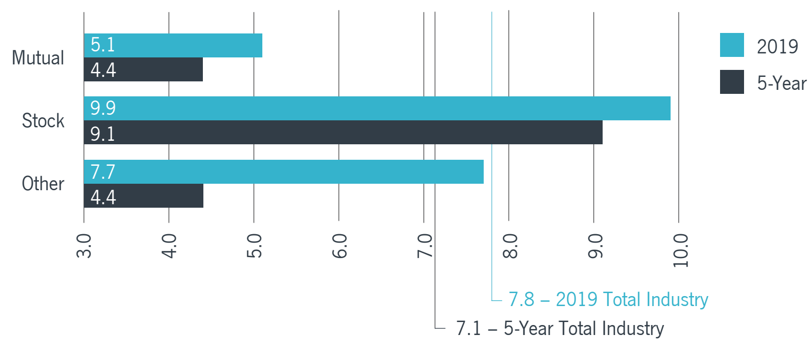
NET YIELD ON INVESTED ASSETS (%)

Persistently low interest rates remain a challenge throughout the insurance industry, with yields on invested assets in the 3.0% to 3.5% range compared to more than 4.5% prior to the onset of the financial crisis in 2008.



RETURN ON AVERAGE EQUITY (C&S) (%)

Profitability across the entire property/casualty insurance industry increased in 2019 in large part due to lessened catastrophe losses from 2018. Return on Average Equity (Capital & Surplus) is lower within the mutual segment due primarily to the fact that mutuals paid out a higher share of each premium dollar in claims and claim-related expenses and because they tend to invest more conservatively.



2019 RAW DATA

Aggregate Underwriting Ratios				
	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	267,326,078	368,710,292	2,822,247	638,858,617
Net Earned Premium ($)	263,235,683	360,668,951	2,831,800	626,736,434
Expense Ratio (%)	27.1	27.1	31.4	27.1
Loss & LAE Ratio (%)	72.5	70.0	69.7	71.0
Dividend Ratio (%)	1.5	0.2	12.6	0.8
Combined Ratio (%)	101.1	97.2	113.6	98.9
Net Investment Income Ratio (%)	6.9	10.3	34.8	9.0
Operating Ratio (%)	94.2	86.9	78.8	89.9

Additional Aggregate Metrics				
	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	267,326,078	368,710,292	2,822,247	638,858,617
Direct Written Premium ($)	285,974,949	418,117,743	4,515,772	708,608,464
Dir. Commission & Brokerage Exp. ($)	29,360,775	49,662,841	296,432	79,320,048
Ceded Reins: Premiums Ceded ($)	25,657,951	83,673,032	275,559	109,606,542
Gross Written Premiums ($)	291,949,700	470,400,599	4,596,170	766,946,469
Surplus, 2019 ($)	355,620,992	498,346,339	11,299,485	865,266,816
Net Total Assets ($)	790,537,242	1,346,052,928	34,397,953	2,170,988,123
Net-to-Direct Written Premium Ratio	0.93	0.88	0.62	0.90
Ceded-to-Direct Written Premium Ratio	0.09	0.20	0.06	0.15
Ceded-to-Gross Written Premium Ratio	0.09	0.18	0.06	0.14
Net Commission Ratio (%)	9.4	12.1	8.3	11.0
Dir. Com. & Brokerage Exp. Ratio (%)	10.3	11.9	6.6	11.2
Direct General Expense Ratio (%)	5.7	6.0	7.6	5.9
Capital & Surplus Growth (%)	11.1	17.1	1.2	14.3
Net Written Premium to Surplus Ratio	0.75	0.74	0.25	0.74
Dir. Written Premium to Surplus Ratio	0.80	0.84	0.40	0.82
Pretax Return on Revenue (%)	5.8	12.4	17.8	9.7
Return on Average Equity (C&S) (%)	5.1	9.9	7.7	7.8
Return on Average Assets (%)	2.3	3.5	2.5	3.0
Net Yield on Invested Assets (%)	2.8	3.4	3.0	3.2

Source: S&P Global Market Intelligence

FIVE-YEAR RAW DATA*

Aggregate Underwriting Ratios				
	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	249,688,507	320,572,380	3,085,507	573,346,394
Net Earned Premium ($)	245,875,442	313,172,206	3,080,008	562,127,655
Expense Ratio (%)	27.5	27.5	28.9	27.5
Loss & LAE Ratio (%)	73.9	70.3	85.8	72.0
Dividend Ratio (%)	1.1	0.2	7.1	0.6
Combined Ratio (%)	102.6	98.0	121.8	100.1
Net Investment Income Ratio (%)	6.7	10.9	31.1	9.2
Operating Ratio (%)	95.8	87.1	90.7	90.9

Additional Aggregate Metrics				
	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	249,688,507	320,572,380	3,085,507	573,346,394
Direct Written Premium ($)	267,773,675	370,367,424	7,558,044	645,699,143
Dir. Commission & Brokerage Exp. ($)	27,950,927	44,345,647	294,694	72,591,268
Ceded Reins: Premiums Ceded ($)	22,366,254	68,556,450	286,747	91,209,451
Gross Written Premiums ($)	273,582,542	415,821,782	7,644,092	697,048,415
Surplus, Five-Year Average ($)	313,610,233	433,002,890	10,580,106	757,193,229
Net Total Assets ($)	717,182,326	1,229,298,478	33,527,503	1,980,008,307
Net-to-Direct Written Premium Ratio	0.93	0.87	0.41	0.89
Ceded-to-Direct Written Premium Ratio	0.08	0.19	0.04	0.14
Ceded-to-Gross Written Premium Ratio	0.08	0.16	0.04	0.13
Net Commission Ratio (%)	9.4	11.8	7.7	10.7
Dir. Com. & Brokerage Exp. Ratio (%)	10.4	12.0	3.9	11.2
Direct General Expense Ratio (%)	5.7	6.0	4.3	5.8
Capital & Surplus Growth (%)	5.6	4.4	5.1	4.9
Net Written Premium to Surplus Ratio	0.80	0.74	0.29	0.76
Dir. Written Premium to Surplus Ratio	0.85	0.86	0.71	0.85
Pretax Return on Revenue (%)	4.1	12.0	7.8	8.5
Return on Average Equity (C&S) (%)	4.4	9.1	4.4	7.1
Return on Average Assets (%)	1.9	3.2	1.4	2.7
Net Yield on Invested Assets (%)	2.7	3.3	3.0	3.1

*Five-year data represents data from 2015 through 2019

TOP TEN MUTUAL WRITERS

Rank			Group/Company	Direct Written Premium ($000)	Overall Rank			Market Share
2019	2018				2019	2018		
1	1	▶	State Farm	$65,615,190	1	1	▶	9.3
2	2	▶	Liberty Mutual	$35,600,051	4	3	▼	5.0
3	3	▶	USAA	$23,483,080	8	8	▶	3.3
4	4	▶	Farmers Insurance	$20,643,559	9	9	▶	2.9
5	5	▶	Nationwide	$18,442,145	10	10	▶	2.6
6	6	▶	American Family Insurance	$11,513,720	14	15	▲	1.6
7	7	▶	Auto-Owners Insurance	$8,748,470	16	16	▶	1.2
8	8	▶	Erie Insurance	$7,482,059	19	19	▶	1.1
9	9	▶	Auto Club Exchange	$4,517,175	31	32	▲	0.6
10	11	▲	FM Global	$4,490,385	32	34	▲	0.6

Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF PERSONAL AUTO

Rank			Group/Company	Direct Written Premium ($000)	Overall Rank			Market Share
2019	2018				2019	2018		
1	1	▶	State Farm	$40,878,781	1	1	▶	16.1
2	2	▶	USAA	$15,231,169	5	5	▶	6.0
3	3	▶	Liberty Mutual	$11,701,811	6	6	▶	4.6
4	4	▶	Farmers Insurance	$10,533,343	7	7	▶	4.2
5	5	▶	Nationwide	$6,245,588	8	8	▶	2.5
6	6	▶	American Family Insurance	$5,776,711	9	9	▶	2.3
7	7	▶	Auto Club Exchange	$3,621,178	11	11	▶	1.4
8	8	▶	Erie Insurance	$3,384,278	12	12	▶	1.3
9	10	▲	Auto-Owners Insurance	$3,215,222	14	16	▲	1.3
10	9	▼	CSAA Insurance Exchange	$2,991,258	16	15	▼	1.2

Lines of business for this table include: 19.1 Pvt Pass Auto No-Fault, 19.2 Oth Pvt Pass Auto Liab, and 21.1 Pvt Pass Auto Phys Damage | Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF COMMERCIAL AUTO

Rank			Group/Company	Direct Written Premium ($000)	Overall Rank			Market Share
2019	2018				2019	2018		
1	1		Liberty Mutual	$1,888,126	3	3		4.2
2	2		Nationwide	$1,673,431	4	4		3.7
3	3		Auto-Owners Insurance	$1,116,121	8	8		2.5
4	4		State Farm	$859,963	11	14		1.9
5	5		Erie Insurance	$635,743	19	19		1.4
6	6		Farmers Insurance	$629,699	20	22		1.4
7	7		Sentry	$557,248	22	23		1.2
8	8		EMC Insurance	$504,732	24	25		1.1
9	10		ACUITY, A Mutual Insurance Co.	$503,343	25	27		1.1
10	9		Federated Insurance	$502,920	26	26		1.1

Lines of business for this table include: 19.3 Comm'l Auto No-Fault, 19.4 Oth Comm'l Auto Liab, and 21.2 Comm'l Auto Phys
Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF COMMERCIAL PROPERTY AND LIABILITY

Rank			Group/Company	Direct Written Premium ($000)	Overall Rank			Market Share
2019	2018				2019	2018		
1	1		Liberty Mutual	$11,840,548	2	2		5.2
2	2		Nationwide	$6,672,034	8	7		2.9
3	3		State Farm	$3,896,812	18	17		1.7
4	4		FM Global	$3,545,674	19	19		1.6
5	5		Farmers Insurance	$2,680,149	24	23		1.2
6	6		Auto-Owners Insurance	$2,143,139	27	27		0.9
7	7		American Family Insurance	$1,276,578	38	36		0.6
8	8		USAA	$1,235,586	39	39		0.5
9	9		Erie Insurance	$1,195,549	41	40		0.5
10	12		The Doctors Co.	$1,015,110	44	51		0.5

Lines of business for this table include: 2.1 Allied Lines (Sub), 2.2 Multiple Peril Crop, 2.3 Federal Flood, 2.4 Private Crop, 2.5 Private Flood, 3 Farmowners MP, 5.1 Comm'l Multi Prl (Non-Liab), 5.2 Comm'l Multi Prl (Liab), 6 Mrtg Guaranty, 8 Ocean Marine, 9 Inland Marine, 10 Financial Guaranty, 11 Med Prof Liab, 12 Earthquake, 17.1 Oth Liab (Occurrence), 17.2 Oth Liab (Claims), 18 Product Liability, 22 Aircraft, 23 Fidelity, 24 Surety, 26 Burglary & Theft, 27 Boiler & Machinery, 28 Credit, 30 Warranty, 34 Oth P&C (State) | Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF WORKERS' COMPENSATION

Rank 2019	Rank 2018		Group/Company	Direct Written Premium ($000)	Overall Rank 2019	Overall Rank 2018		Market Share
1	1	▶	Liberty Mutual	$2,511,297	5	7	▲	4.5
2	2	▶	Texas Mutual Insurance Co.	$1,069,298	14	15	▲	1.9
3	3	▶	Pinnacol Assurance	$588,500	22	23	▲	1.1
4	10	▲	CopperPoint Insurance Companies	$560,987	25	36	▲	1.0
5	4	▼	Erie Insurance	$502,146	26	27	▲	0.9
6	5	▼	Sentry	$477,081	28	29	▲	0.9
7	8	▲	Encova Insurance	$452,958	30	33	▲	0.8
8	7	▼	MEMIC	$407,737	31	31	▶	0.7
9	6	▼	Amerisure	$402,338	32	30	▼	0.7
10	9	▼	Nationwide	$367,491	35	34	▼	0.7

Lines of business for this table include: 16 Workers' Comp and 17.3 Excess Workers' Comp
Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF ACCIDENT AND HEALTH

Rank 2019	Rank 2018		Group/Company	Direct Written Premium ($000)	Overall Rank 2019	Overall Rank 2018		Market Share
1	1	▶	State Farm	$1,019,466	1	1	▶	13.9
2	2	▶	Liberty Mutual	$242,484	9	15	▲	3.3
3	3	▶	American Family Insurance	$26,700	35	37	▲	0.4
4	4	▶	Nationwide	$25,739	36	39	▲	0.4
5	5	▶	Sentry	$3,813	49	45	▼	0.1
6	NA	▲	Coverys	$994	56	NA	▲	0.0
7	7	▶	Texas Farm Bureau Insurance	$774	57	58	▲	0.0
8	8	▶	Rural Mutual Insurance Co.	$716	58	59	▲	0.0
9	10	▲	North Carolina Farm Bureau Insurance	$142	69	72	▲	0.0
10	9	▼	Farmers Insurance	$136	70	71	▲	0.0

Lines of business for this table include: 13 Group A&H, 14 Credit A&H (Grp & Ind), 15.1 Cllct Rnbl A&H, 15.2 Non-Cancelable A&H, 15.3 Grted Renewable A&H, 15.4 NonRnwbl Stated Only, 15.5 Oth Accident Only, 15.6 Medicare Title XVIII Tax Exempt, 15.7 Oth A&H (State), and 15.8 Fed Emp Health Ben | Source: S&P Global Market Intelligence

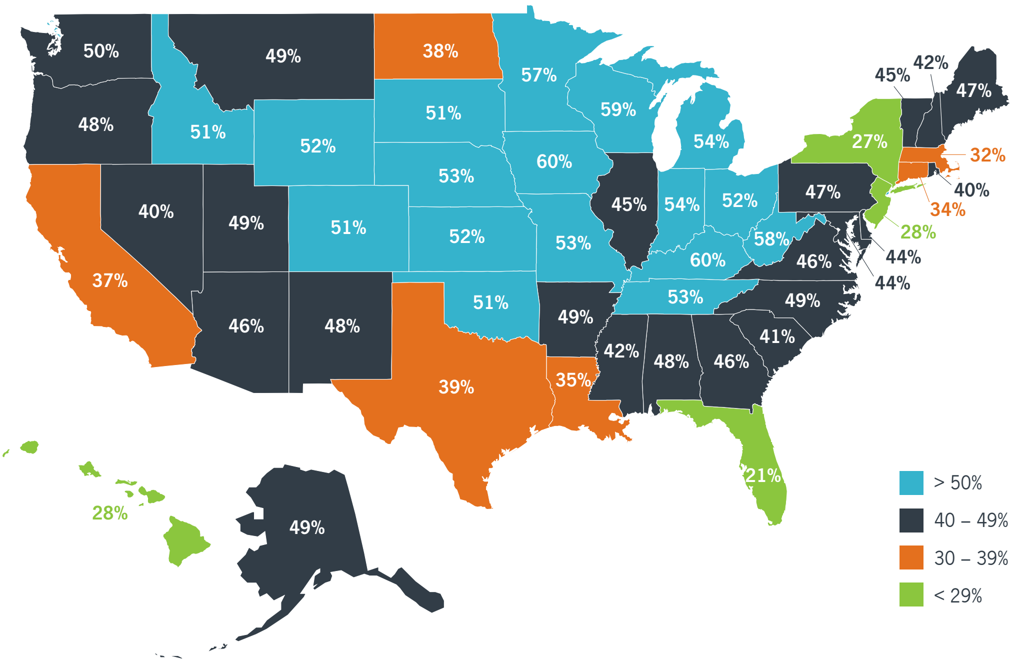
TOP TEN MUTUAL WRITERS OF HOMEOWNERS								
Rank			Group/Company	Direct Written Premium ($000)	Overall Rank			Market Share
2019	2018				2019	2018		
1	1		State Farm	$18,685,957	1	1		17.9
2	3		USAA	$6,835,804	3	4		6.6
3	2		Liberty Mutual	$6,745,864	4	3		6.5
4	4		Farmers Insurance	$5,943,814	5	5		5.7
5	5		American Family Insurance	$4,057,499	7	7		3.9
6	6		Nationwide	$3,244,683	8	8		3.1
7	7		Erie Insurance	$1,746,390	10	10		1.7
8	8		Auto-Owners Insurance	$1,702,226	11	11		1.6
9	9		CSAA Insurance Exchange	$946,900	17	17		0.9
10	10		Amica	$944,825	18	18		0.9

Lines of business for this table include: 4 Homeowners MP | Source: S&P Global Market Intelligence

MUTUAL STATE MARKET SHARE (%)

In 2019, mutuals owned 41% of the property/casualty market in the United States, where stock and other segments had 57% and 1%, respectively, which remained the same year-over-year. Stock companies make up most of the property/casualty market nationally, which in part is driven by mutual companies de-mutualizing to stock companies in recent years after legislation to permit this process was passed in many states.

Although the mutual segment has a smaller share of the market compared to the stock segment, the mutual segment has a consistent market share presence throughout the United States. Mutuals have the majority of the market share in 17 states and at least 40% market share in 40 states. The states with more mutual company presence are in the Midwest. In the five states where the mutual segment's market share is less than 30%, premiums are typically written by larger stock insurers such as Travelers, Zurich, The Hartford, and Progressive.



THE DIFFERENCE BETWEEN MUTUAL & STOCK COMPANY COMBINED RATIOS

Mutual insurers have historically operated with combined ratios that are several points above stock insurers. From 2015 through 2019, the average combined ratio of the mutual segment was 102.6 compared to 98.0 for stocks companies. This was true in 2019 as well, with mutual insurers running a combined ratio of 101.1 compared to 97.2 for stock insurers. There are several reasons for this, which are discussed below.

POLICYHOLDER DIVIDENDS

The overwhelming majority of policyholder dividends are paid by mutual insurers to their policyholders in recognition of their limited ownership-rights in the company. Stock companies pay dividends as well but generally to their shareholder owners, and they are not included in the combined ratio. The dividend ratio for mutual insurers in 2019 was 1.5% compared to 0.2% for stock insurers.

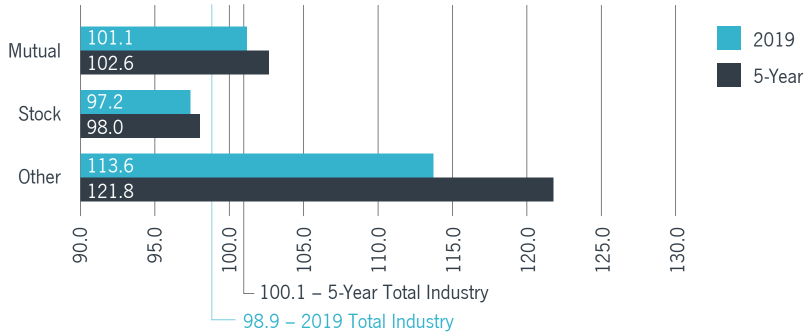
PRICING STRATEGY

Policyholders of mutual companies may also benefit from differences in pricing strategies. Some mutuals, rather than or in addition to the payment of dividends to policyholders, tend to temper the pace of rate increases. This translates into greater price stability and lower relative premiums for policyholders. At the same time, a slower pace of rate increase for mutuals will generally lead to loss ratios and ultimately combined ratios that are higher than those of stock companies. Stock insurers tend to operate in this manner because of their responsibility to maximize returns for shareholders. Mutual insurers over the long run must operate profitably, of course, but with their primary objective being growth of surplus. Consequently, mutual insurers do not generally face the same degree of immediacy with respect to the need to increase rates that in turn benefits policyholders as the mutual insurer will pay out a higher share of each premium dollar collected from customers.

Note that this does not mean the average cost per claim, i.e., claim severity, is higher for mutuals. It simply means that mutual insurers on average absorb proportionately more losses than stock companies.

COMBINED RATIO (%)

Mutual insurers have remained steady with slightly elevated combined ratio after a bad catastrophe year in 2017. Mutuals' combined ratio for year end 2019 is 101.1, which is the same as they experienced the year prior. Mutuals' combined ratio on a five-year basis is at 102.6. In contrast, the stocks' combined ratio is much lower at 97.2 for 2019 and is similar on a five-year average. Stocks compare favorably to the industry combined ratio of 2019 (98.9%), whereas mutuals exceed the industry average. The mutual segment's combined ratio exceeded that of stock companies by almost 4 points in 2019 and is, in part, the result of several large mutual holding companies ceding premiums from stock subsidiaries to mutual subsidiaries.

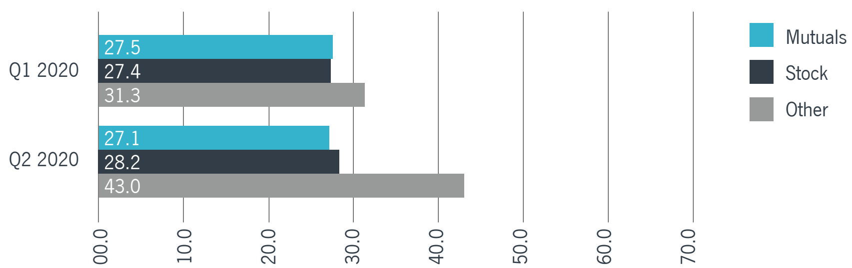


2020 YTD PERFORMANCE THROUGH JUNE

In this section, we review preliminary results from June 2020 statutory financials. While there remains some compilation of group results at the time of this report, over > 98% of companies and premium are represented in the analysis below. As part of this review, we estimate the industry returned approximately $9 billion in premium to policyholders in the form of reduced premiums and/or through policyholder dividends in response to reduced frequency related to COVID-19 lockdowns.

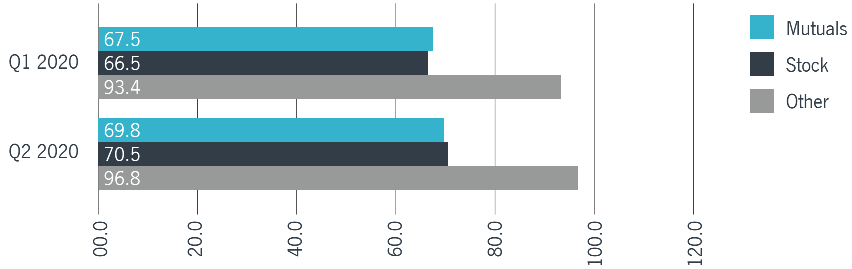
EXPENSE RATIO (%)

The net expense ratio for Mutual companies show modest fluctuation from year-end 2019 (27.0%), in-line with normal seasonality of business. Mutuals were able to effectively manage the expense ratio in Q2 as compared to Q1 by keeping overall expense dollars flat, while experiencing modest premium growth. Meanwhile, Stock insurers had a noticeable uptick in their expense ratio in Q2, mainly related to a decline in premium as expense dollars were generally flat. Premium "give-back" programs for most Stock insurers were accounted for as a reduction in premium, while many Mutuals used policyholder dividends as the mechanism to return premium.



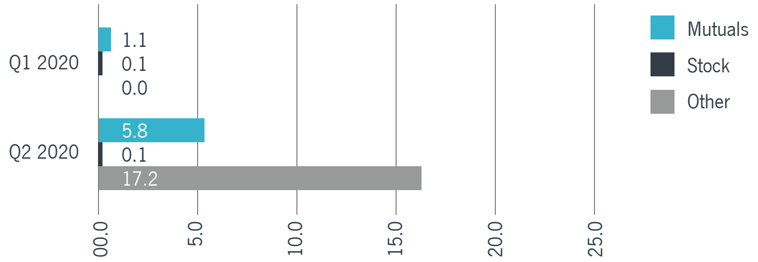
LOSS & LAE RATIO (%)

Loss & LAE ratio in Q1 was very favorable to Mutuals and Stocks alike, as both posted ratios below 70% (compared to 2019 ratio = 72.5% for Mutuals and 70.0% for Stocks). It is noteworthy to mention that there is seasonality in insurance loss activity, which contributed to the low Q1 loss ratio results. However, Q2 loss ratio for Mutuals and Stock experienced an uptick despite an unprecedented drop in auto frequency from lockdowns in the quarter. Contributing to the uptick in the loss ratio include some loss activity related COVID-19, plus five multi-billion dollar severe weather loss events in the quarter and losses from civil unrest throughout the country. In addition, reduced growth in premium from returning premium to policyholders (mostly focused on auto policies) contributed to lifting the ratio.



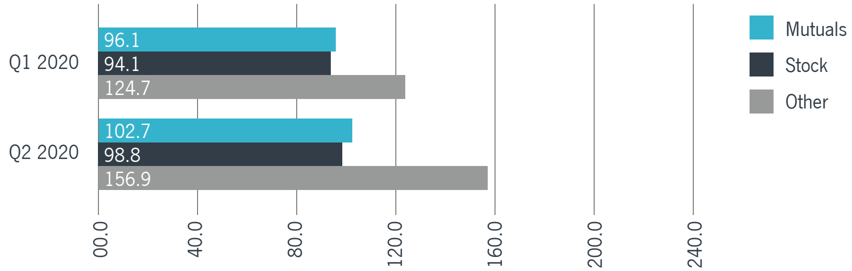
POLICYHOLDER DIVIDEND RATIO (%)

In Q2, we see clear evidence of increased use of policyholder dividends by Mutuals and other non-stock entities to facilitate returning premium to support policyholders during the challenging environment, especially during the early days of the lockdown. As noted previously, stock insurers reduced premium instead of using policyholder dividends.



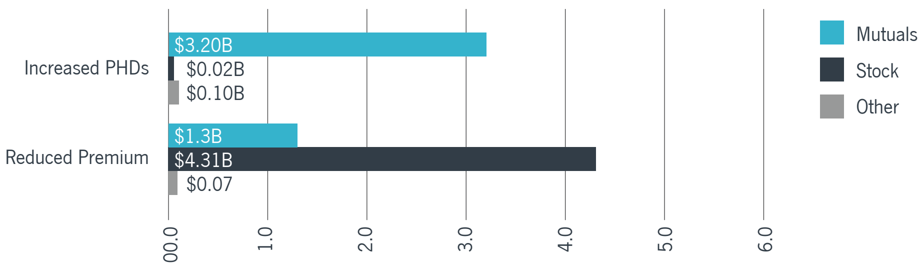
COMBINED RATIO (%)

Q1 combined ratio was favorable for both Mutuals and Stock insurers producing combined ratios below 100%. These results are positively skewed by seasonality of losses, especially with a generally mild winter. However, we saw an increase in the combined ratio for Mutuals and Stocks in Q2. In fact, by implementing their return premium mostly through policyholder dividends, Mutuals increased the combined ratio above 100% into an underwriting loss to 102.7% to pass premiums back to policyholders. While stock insurers implemented similar programs, mostly through reducing premium instead of using policyholder dividends, stock insurers still maintained a combined ratio below 100% at 98.8% to generate an underwriting profit, aligning with their focus on returns.



INDUSTRY RETURNED $9 BILLION IN PREMIUM TO INSUREDS

As previously discussed, the P&C industry proactively returned approximately $9 billion of premium to insureds in Q2 2020. Most of the return premium was on auto lines of business, given the significant drop in driving activity and related drop in loss frequency following hard lockdowns instituted in March and April. The industry recorded this return premium through a reduction in premium (usually via premium credits to insureds) or via policyholder dividends. The analysis below totals the impact of both approaches. In Q2 2020, Mutuals issued $3.2 billion in policyholder dividends above the ordinary course of business. At the same time, we estimate Mutuals returned $1.3 billion to policyholders via premium credits. In total, we estimate Mutuals returned $4.5 billion to its insureds, representing approximately 6.0% of total premium for the quarter. Separately, Stock insurers mainly returned money to insureds via premium credits, which we estimate to be $4.3 billion in Q2 2020 based upon the difference in expected premium growth and actual premium growth. This represents approximately 4.0% of Stocks total premium for the quarter. The analysis also considers that some reduction in premium was attributable to reduced growth given the falloff in economic activity in Q2.



BENCHMARK STUDY FOR AM BEST RATINGS

OVERVIEW

Our benchmark study is based upon 623 U.S. Property/Casualty companies that have been rated by AM Best under the BCRM framework. The findings consist of groups and unaffiliated single companies. With a total count of 623 U.S. Property/Casualty companies, 53% are represented as Stock companies, 47% as Mutuals. Stock companies that are part of mutual group ratings were counted as a single mutual company. Reciprocal exchanges, risk retention groups, Cooperatives, and Lloyds were counted as mutual companies. The study is a result of Aon's ability to track how mutual companies are rated under the AM Best criteria. This is based upon ratings as of June 15, 2020.

KEY FINDINGS

The BCRM Benchmark study provides deep insight and conclusions regarding how mutuals are rated under the AM Best criteria.

It was found that **85%** of mutual companies are rated "A-" or higher and **92%** have a "positive" or "stable" outlook.

The median VaR 99.6 BCAR score for mutual companies is **59%**, 10 points higher than stock companies at **49%**.

90% of mutuals have "strongest" or "very strong" balance sheet strength compared to **79%** of stock companies.

84%

Mutual and stock companies have similar operating performance assessment distribution with 84% "Adequate" or better assessments.

29%

The median 5-year combined ratio volatility highlights that stock companies exhibit 29% higher standard deviation than mutual companies.

47% mutual companies have "Neutral" or better business profile versus **40%** for stock companies.

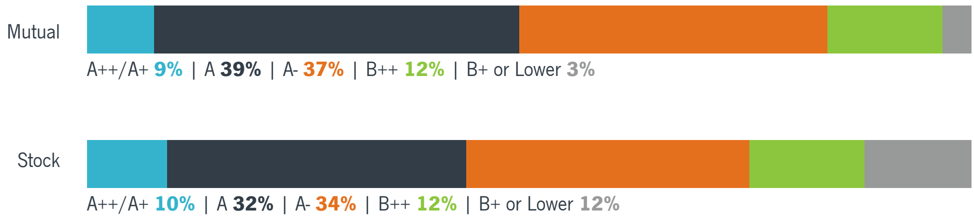
97% of mutuals have "Appropriate" or better ERM assessment compared to **90%** of stock companies.

Only **4%** of mutuals receive a rating lift from parent affiliation while **21%** of stock companies depend on this lift.

U.S. PROPERTY/CASUALTY COMPANIES RATING DISTRIBUTION

Out of the 623 U.S. property/casualty, the majority are either rated "A" or "A-." Slightly less mutuals are rated "A++"/ "A+," with 9% receiving the highest rating compared to 10% of stock companies. However, more mutuals received an "A" rating than stock companies. Thirty-nine percent of mutuals received an "A" for 2020 compared to 32% of stock companies. It is important to note that 12% of stock companies received a "B+" and lower. This compares to only 3% of mutuals that received a "B+" or lower.

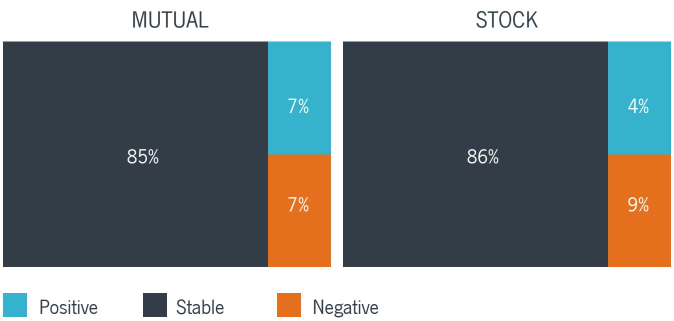
Current Rating



Count: Mutual – 293, Stock – 330

Current Rating Outlook

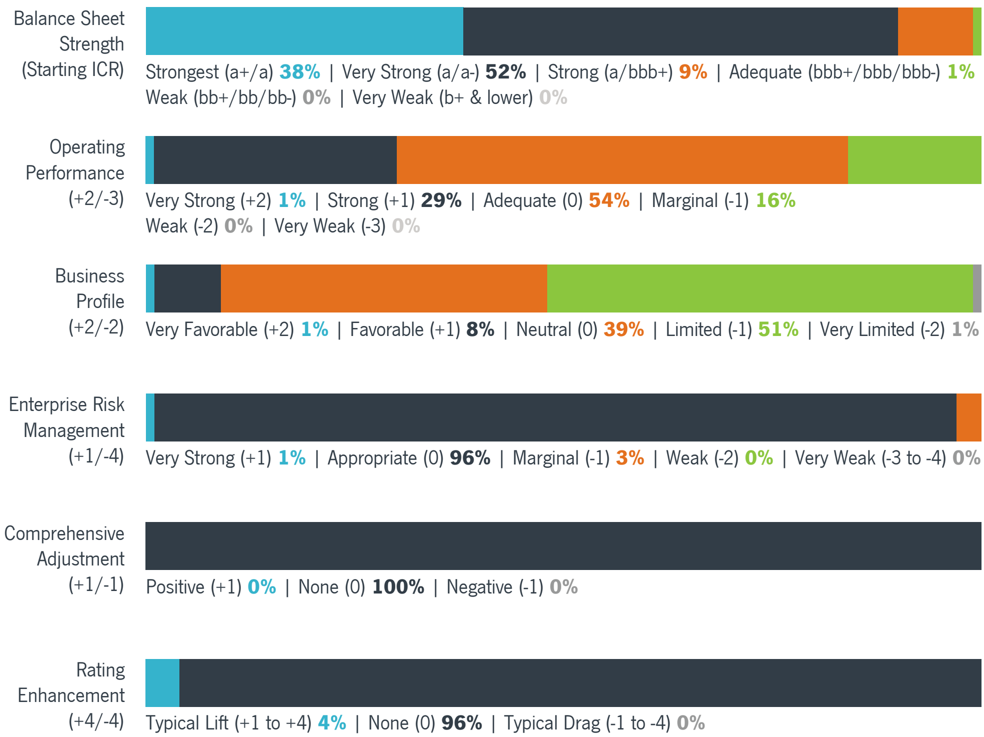
The majority of ratings have a stable outlook, with mutuals at 85% and stocks at 86%. Additionally, 7% of mutual have a positive outlook, compared to 4% of stocks. Conversely, only 7% of mutual companies have a negative outlook compared to the 9% of stocks.



BCRM BUILDING BLOCK ASSESSMENTS

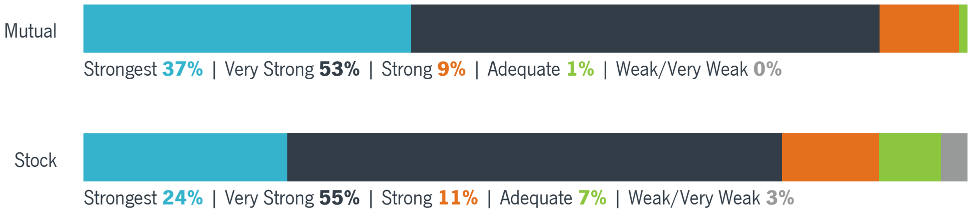
AM Best follows a building block rating approach that assesses individual components and applies positive or negative notching. Balance Sheet strength sets a base ICR based on the company's BCAR score and other key financial metrics. AM Best will then assess Operating Performance, Business Profile, and Enterprise Risk Management. After these building blocks, AM Best may apply a comprehensive adjustment if there is something unique not captured in the first four categories. Lastly, AM Best may apply a rating enhancement depending on the parent company before determining the ICR. A company's financial strength rating is a direct function of its ICR.

Fify-two percent of mutuals have a "Very Strong" Balance Sheet Strength. This results in an initial ICR of "a/a-." The majority of mutuals receive an "Adequate" Operating Performance. Fifty-one percent of mutuals receive a "Limited" Business Profile. Ninety-six percent of mutuals have "Appropriate" Enterprise Risk Management, given their risk profile. Not one mutual received a comprehensive adjustment. Despite some mutuals having parental affiliation, 96% of mutuals do not receive a rating enhancement. This notching approach would result in a final ICR for mutuals of "a-," with an Financial Strength Ratings (FSR) of "A-."



BALANCE SHEET STRENGTH

Balance Sheet Strength is the first building block in the BCRM. Companies receive a “Strongest”, “Very Strong”, “Strong,” “Adequate,” “Weak,” or “Very Weak” assessment depending on their BCAR scores, key balance sheet measures (underwriting leverage, asset quality, reserve adequacy, reinsurance, etc.), and other considerations such as holding company financials and financial flexibility. The balance sheet assessment provides a range of starting issuer credit rating’s (ICR) for the analyst to select. Ninety percent of mutual companies receive a “Strongest” or “Very Strong” assessment, which therefore results in 90% of mutuals starting with an “a+,” “a,” or “a-” ICR. Additionally, no mutual is considered to have Weak or Very Weak Balance Sheet Strength.

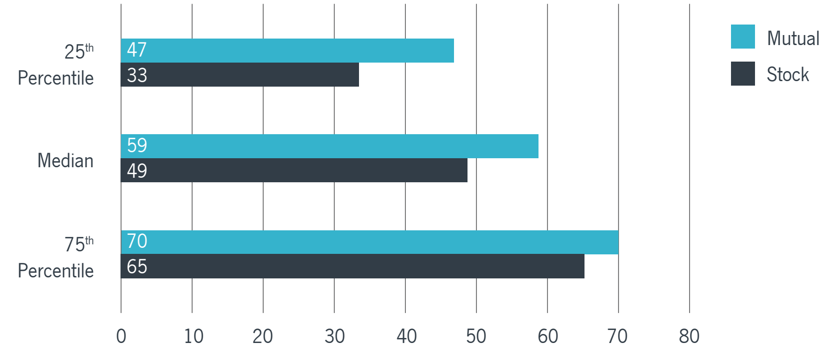


Published BCAR Scores

The primary quantitative tool used to evaluate a company’s capitalization is BCAR. AM Best will calculate BCAR at five different confidence intervals (C.I.) VaR 95, 99, 99.5, 99.6, and 99.8 with each C.I. using different capital factors that reflect 20-, 100-, 200-, 250-, and 500-year events, respectively. AM Best will run a baseline calculation as well as a stressed, but only the baseline VaR 95, 99, 99.5, and 99.6 scores are published. The scores provide a starting point for the Balance Sheet Strength assessment.

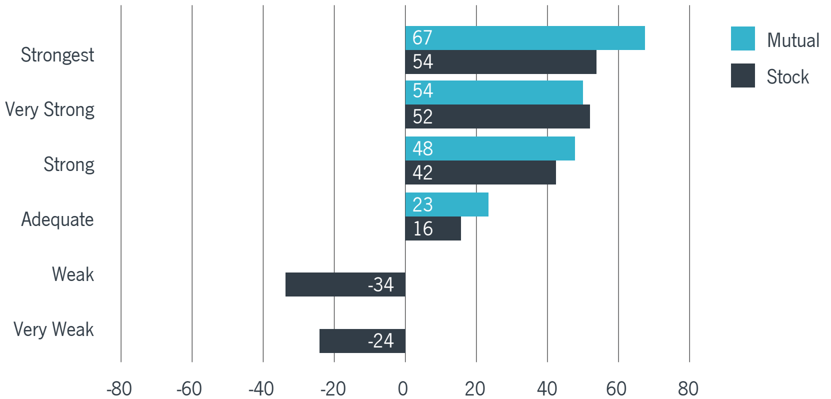
BCAR at VaR 99.6 Percentiles

The most relevant C.I. in the published BCAR output is the VaR 99.6. A company must maintain a BCAR ratio more than 10% or 25% to receive a "Very Strong" or "Strongest" balance sheet assessment, respectively. While meeting the BCAR requirement does not guarantee those assessments, most companies are well above the 10% and 25% thresholds. Mutuals at all percentiles maintain a significant higher capitalization compared to stock companies. The numbers below reflect all possible Balance Sheet Strength assessments.



Median BCAR at VaR 99.6 by Balance Sheet Strength Assessment

The median BCAR score for both mutuals and stock companies at each Balance Sheet Strength assessment follow a trend that illustrates the two are correlated. Companies with higher BCAR scores tend to receive more favorable assessments. The median BCAR score for stock companies is less than mutuals as stock companies benefit from having more financial flexibility. While the median BCAR score for mutuals with an "Adequate" assessment is higher than some of the other assessments, the limited amount of data points inflates this number, thus, highlighting the importance of other key financial metrics in the rating process.

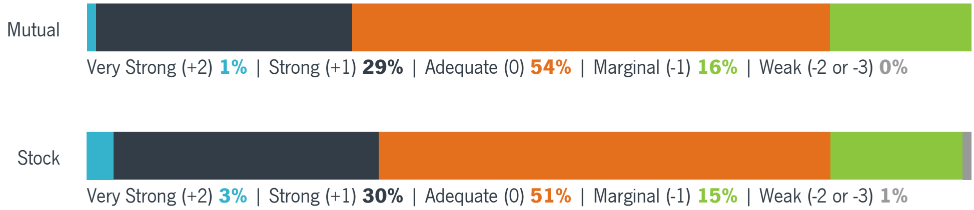


OPERATING PERFORMANCE

Following the Balance Sheet Strength assessment, a company's starting ICR can receive positive, negative, or neutral notching reflective of their Operating Performance. This assessment examines combined ratio, operating ratio, net income, surplus growth, and other performance metrics to determine "Very Strong" (+2), "Strong" (+1), "Adequate" (0), "Marginal" (-1), "Weak" (-2 or -3) notching.

Operating Performance

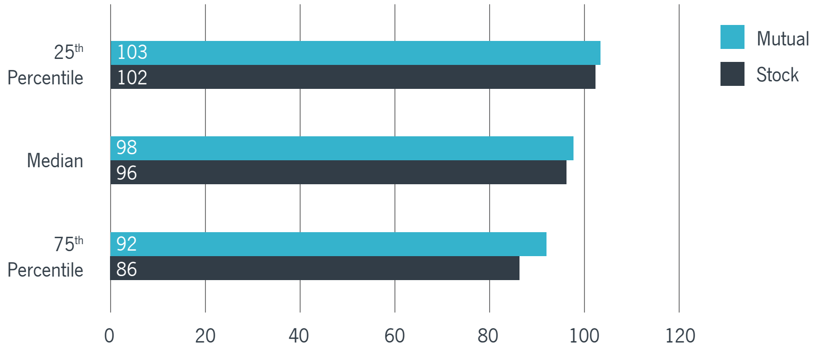
Overall, mutual and stock companies receive similar assessment distributions for the Operating Performance building block. Eighty -four percent of mutual and stock companies do not receive negative notching, while only one mutual receives a "Weak" (-2 or -3) assessment.



Combined Ratio and Combined Ratio Volatility Five-Year Percentiles

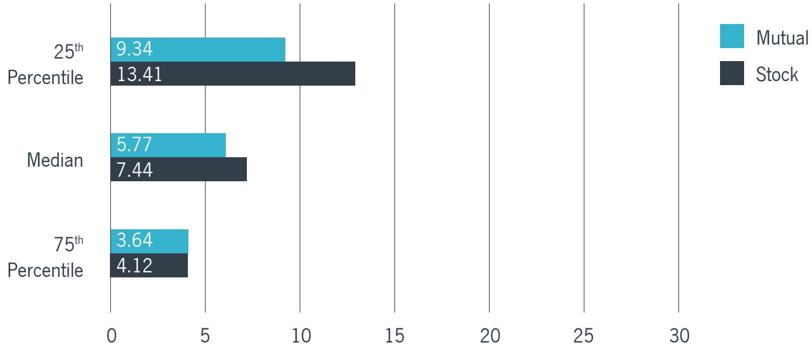
The five-year combined ratio for mutuals and stock companies are similar but separate toward the higher percentile. However, mutual companies experience less volatility when examined through all percentiles. Overall, median five year combined ratio volatility for stocks is 29% higher than mutuals as measured by standard deviation. The results below reflect all possible Operating Performance assessments.

Five-Year Combined Ratio



Count: Mutual – 293, Stock – 330

Five-Year Combined Ratio Volatility



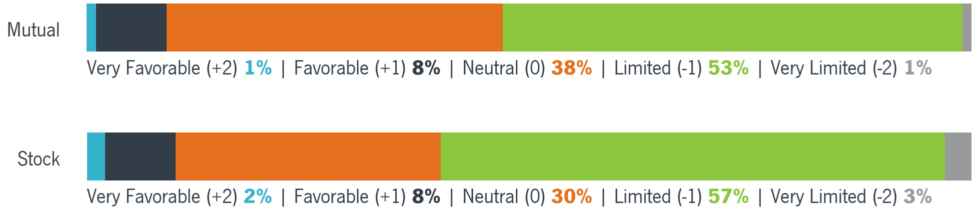
Count: Mutual – 293, Stock – 330

BUSINESS PROFILE ASSESSMENT

Profile factors in the following characteristics: Market Position, Pricing Sophistication and Data Quality, Management Quality, Regulatory and Market Risk, Product Risk, Distribution Channels, Degree of Competition, Product/Geographic Concentration, and Innovation.

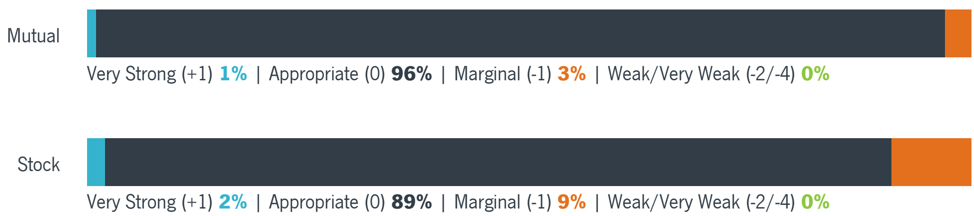
Business Profile Favorability

The business profile assessment can result in an increase, decrease, or no change in the respective rating. Forty-seven percent of mutual companies have "Neutral" or better business profile compared to only 40% of stock companies. Stock companies are slightly more likely to receive a "Limited" assessment at 57% compared to mutuals at 53%.



ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management is becoming a more prominent factor in AM Best Rating Methodology. AM Best evaluates ERM on three major fronts: Risk Management framework, risk management capabilities considering risk profile, and overall ERM strength. The analysis of ERM can result in either an increase, decrease, or no change in the respective rating. Ninety-seven percent of mutual companies have "Appropriate" or better ERM assessment compared to 91% of stock companies. It is important to note that none of the U.S. and property/casualty companies have received "Weak" or "Very Weak" assessment.

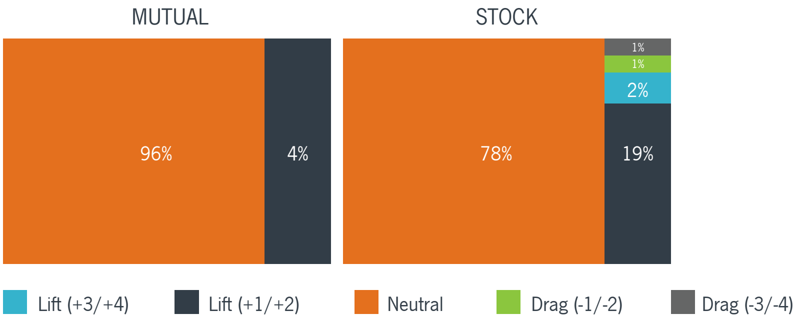


Rating Enhancement

Non-lead rating units that are well-integrated within the organization may receive a notching lift based on implicit/explicit support of the broader organization. Conversely, a non-lead rating unit may be penalized for its association with a weaker holding company and receive a drag. In addition to the Rating Lift/Drag building block, there is also a building block for a Comprehensive Adjustment. Not one company globally in all insurance sectors has received a Comprehensive Adjustment.

Drag/Lift Percentages

Only 4% of mutual companies receive a rating lift from parent affiliation, while 21% of stock companies depend on this lift. The rating adjustment can be anywhere from +4 notches to -4 notches. While no mutual companies have received +3 or more lift, not one mutual has received a drag.



RATING AGENCY HOT TOPICS

Looking ahead, the industry's future contains both challenges and opportunities. Covid-19 Impact, Catastrophe Losses, Stress Testing, Reserves Adequacy, Pricing and Innovation could have a prolonged impact on individual ratings and on how rating agencies view the insurance industry overall.

COVID-19 Impact

Although the stock market has essentially rebounded since the volatility in the early days of the global pandemic, significant uncertainty remains on the magnitude of the impact on the insurance industry, but very low interest rates, potential economic recession, regulatory, and other external factors will impact results.

Catastrophe Losses

The industry losses from Irma had a loss estimation of $7 billion at the end of the 3rd quarter in 2017 but has experienced > $10 billion loss development as of YE 2019. This, along with large wildfire losses in 2017 and 2018, has brought model performance, pricing, and reinsurance cost/needs to the forefront of rating agency minds. Insurers and rating agencies have begun to revisit management's "View of Risk" to ensure the models they are relying on reflect the actual exposure the company has. 2020 has also shown increased cat loss activity from hurricanes, wildfires and Midwest derecho events.

Stress Testing

Many companies are implementing or enhancing stress testing for ERM, rating agencies or ORSA filings. Companies are considering adding events like cyber, social inflation or modifying asset stress scenarios to include the combination impact of a prolonged economic slowdown or a catastrophe event.

Reserves Adequacy

Social inflation is impacting current year's losses and prior year's reserves as the trend increases litigation and higher jury awards continues. This has created substantial capacity for loss portfolio transfers, allowing for new capital solutions in the market.

Pricing

The industry has seen an improving pricing environment across many business lines with workers' compensation being the noticeable exception. This has led to increased underwriting standards as insurers that write larger account sizes are lowering limits and taking other actions.

Innovation

AM Best new Innovation criteria officially took effect in March 2020. While the impact on current ratings has been limited, this addition to AM Best's rating criteria highlights the importance of innovation to the industry and for insurers to remain competitive in the future.

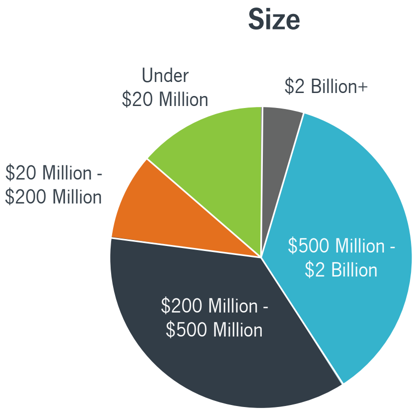
2020 NAMIC THOUGHT LEADERSHIP RESEARCH

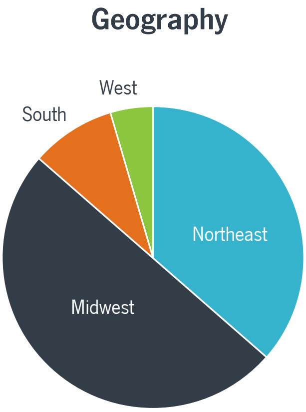
OVERVIEW

In 2020, NAMIC undertook a series of interviews with key executives representing all segments of the mutual insurance industry. This qualitative research project – conducted by an outside research firm, John Gilfeather and Associates – was designed to spur a dialogue among NAMIC members on what the future holds for the industry and how this future will need to be addressed.

Specifically, the project sought direct input from mutual leaders on how they defined the challenges the industry faces in the short term and long term, which changes they viewed as fleeting or lasting, and what opportunities and threats they anticipated and their thoughts on how they will they be addressed.

A total of 22 in-depth telephone interviews were conducted throughout July and August with mutual insurance industry thought leaders, who were selected from a list developed by NAMIC. Individuals on the list reflected a mix of mutual companies based on size and geography as illustrated below.





EXECUTIVE PERSPECTIVES – KEY AREAS OF CHALLENGE AND CHANGE

Based on the interviews conducted, mutual insurance industry thought leaders are in broad agreement that the coronavirus pandemic has confronted the industry with several challenges and changes which will alter the way business is done forever. The most significant changes fall into four broad categories:

- The Workplace
- Industry Reputation, Regulation, and Litigation
- Digitization and Technology
- Mutuality and Differentiation.

Throughout the course of the interviews, executives were asked to provide their thoughts on specific topics. The interviews were open ended and many topics were addressed about the impacts of the pandemic and the issues facing the industry in the future. Outlined on the following pages are some of the highlights from each major category, as well as thoughts on other, more specific topics, such as visions of the future barriers to change, risk management, and diversity. The full report on the Thought Leadership Survey is available here [LINK] on the NAMIC website.

THE WORKPLACE

The most universal change cited by industry thought leaders has been the dramatic shift from the norm of an office workplace to the new reality of remote working. In mid-March 2020, most companies made this transition. In most cases it was a victory. Within days, mutual companies were up and running with an almost totally remote work force. Company leaders saw the transition as a triumph of disaster planning, and the sometimes-heroic efforts of IT professionals, along with the resilience of the work force and overall trust within the organizations.

> *"I had to deploy over 1,000 employees in a matter of 48 hours to home. I was pleasantly surprised at how well it went, so I think the pandemic has taught us we are more resilient than we think when the chips are down."*

Leaders also credited their ability to step up their communications through the early stages of the transition. Executives frequently used daily communications to convey their commitment to the health and safety of employees and their families; the need to seamlessly resume service to policyholders and agents; as well as to provide frequent updates on the financial health of the company and its ability to weather the pandemic crisis.

Most executives do not see a return to a 100% office-based work force – even though some wish this could happen. They cite several reasons including that some employees like working from home and for some, because of the pandemic, it has become a necessity. Many leaders also cautioned of the downside to a remote workforce.

> *"With remote working over a period of time, you'll lose your culture – the interaction. We believe in our culture which is very customer oriented, people oriented."*

Mutual insurance companies place a huge emphasis on corporate culture and several leaders feel it is hard to maintain culture in a remote working environment – not to mention difficulties on on-boarding, training and mentoring. As a consequence, most leaders foresee a hybrid work environment with some office workers, some remote workers and some workers who will rotate from home to office.

INDUSTRY REPUTATION, REGULATION, AND LITIGATION

The insurance industry – especially companies that write business interruption and workers' compensation policies – face a major threat as the result of the pandemic. Industry thought leaders pointed out that some policyholders are not clear that in many cases losses due to the pandemic are not covered by their policies.

> *"We have no problem whatsoever with paying coverages that are within our contract. It's just when they're regulatorily extending coverage beyond what we collect the premium for or expect to pay. And so far, we have not had to do that, but the whole time period isn't over yet, either. And there's a lot of different events happening in all the state legislatures."*

Interviews revealed that executives see three main consequences of this situation. First, industry leaders worry that the industry will get a public black eye – i.e., the perception that businesses paid their premiums and now the insurance companies are not providing coverage. The second consequence is the proliferating number of lawsuits that have been filed, and even though leaders are confident that the pandemic exclusion language is strong, they still represent a risk. Finally, industry leaders are concerned that regulators, facing public and political pressure, will overreach and require insurance companies to pay uncovered claims. Some leaders believe that reason will prevail and that regulators will not want to devastate the industry.

DIGITIZATION AND TECHNOLOGY

> *"We were already headed down this path as an industry and this is more digitization, more digital interactions. We were on the trajectory and this certainly accelerated that."*

Mutual executives reported that before the pandemic their companies were on the path toward digitization and advanced uses of technology. Some were farther along than others, but they were all on the path. The pandemic accelerated the pace of technological change. And the changes being made now are here to stay. As a result, these thought leaders believe technology will enable remote working so the return to office work, while desirable, will not be a necessity. They also expect that there will be less face-to-face contact with policyholders and agents, with some leaders expressing concern that this will loosen the strong personal bonds that exist with these stakeholders.

> *"Three years ago, we began to modernize all of our systems. At the time, I made a comment there is a tsunami coming at us. People want more interaction digitally and online. It's not here yet, but it's coming. The virus has sped that tsunami up."*

Some leaders report that digitization could lead to direct writing of commoditized insurance lines like simple automobile, homeowners and some small businesses. They believe this would be driven by competitive forces and/or the changing ways consumers – especially young consumers - buy insurance. These same mutual leaders are quick to say, however, that independent agents will still be the key distribution channel in the future. Some leaders do point out that agents will need to work harder to demonstrate the value they are adding to policyholders and insurance companies.

Finally, mutual executives also say that moving toward digitization and advanced technology may lead to some more consolidation in the mutual industry because smaller companies may not have the capital to make the necessary investments.

MUTUALITY AND DIFFERENTIATION

Throughout the interviews, mutual leaders were eloquent in describing the benefits of mutual insurance companies and the advantages that are inherent to mutuality. Some leaders say more should be done to communicate the benefits and advantages of mutuals to personal and commercial lines customers and prospects.

Yet, while leaders see mutuality as a marketing advantage, they also view it as much more than that. Company executives see mutuality as a belief system based on the fact that policyholders are aligned with the interests of the company, that management is responsible for taking the long view and that the company is dedicated to its stakeholders: policyholders, employees, agents and its community.

> *"The advantage mutuals have is that we've always been member-focused, as opposed to the more primary focus of many of our stock brethren which is shareholder first, I know a lot has started to change with everybody signing on to the letter that they have more than one constituent, not just the stockholder. But, for us, it's been our life."*

Many leaders rely on the principles of mutuality when discussing the difficult questions around diversity and social justice in the wake of the killing of George Floyd and more recent incidents. Some leaders point out that their offices and their policyholders' businesses were vandalized during demonstrations. But leaders also say that their customer bases and their communities are changing and, therefore, their work forces should be changing, and they are taking steps to make this happen.

> *"We've got an obligation to actually do things rather than talk about things. I think that's very, very important. We're often not headquartered in extraordinarily diverse areas. As we expand our business, we begin to have policyholders, the focus of the company, who are a lot more diverse. From a business standpoint, you to react to that. As corporate stewards and as Americans, it is a responsibility to give this really strong attention and be proactive. We all need to step up to that."*

Leaders point out that there are many mutuals in small communities where hiring a diverse work force is almost impossible. Still, even with that potential limitation, there are also leaders who say that now - with remote working and the need for more workers with specific technology skills perhaps not available in small towns – there is an opportunity for all companies to increase their diversity.

OTHER HIGHLIGHTS

LESSONS LEARNED

Mutual industry leaders cited three key lessons that they have learned as the result of the pandemic. The first lesson is that it is possible to work remotely and still be productive. While it took a tremendous effort to make the transition, most are pleased with the results. Many believe that making working remotely successful required resilience, flexibility, trust and communication. Others do not like the idea of remote work, and some think it will be hard to go back fully to an office environment. The second lesson is the importance of crisis planning. Even though no one predicted a worldwide pandemic, most (but not all) companies had been preparing for business interruptions of some sort, and having done so paid off significantly. The third lesson was the confirmation of the principles of mutuality – that mutuality embodies empathy which provided mutual companies with an advantage during the pandemic.

FINANCIAL PERFORMANCE

Among those interviewed as part of the research, there was no strong consensus on how the pandemic has affected financial performance. Overall, though, results for 2020 are not expected to be too bad. Still leaders' individual perspectives on this topic varied greatly.

A few leaders are predicting strong results, while many others say they will miss their growth and profit targets. Some expect poor results because they specialize in commercial areas hardest hit by the pandemic – e.g., hotels, restaurant, bars. However, almost all leaders say their companies are well capitalized and can withstand the problems of 2020.

Leaders noted that companies who participate in automobile insurance were clearly impacted by the premium givebacks. However, these givebacks have been offset by better experience because of fewer miles driven and fewer claims. Still, questions arise over whether regulators will require more/bigger give backs and how long it will take to get needed rate increases.

Some leaders report that the transition to remote working has lowered expenses and this has helped the bottom line.

VISIONS OF THE FUTURE

Overall, mutual industry leaders foresee an exciting and challenging future. The keynote is change. Leaders do not see a return to pre-pandemic conditions. Too much has happened to go back to what was normal before March 2020.

- There will be new challenges in corporate risk management and underwriting reflecting post pandemic realities.
- The arenas of reputation, regulation and litigation are long term concerns.
- The bedrock of the mutual insurance industry will continue to be the tenets of mutuality. Leaders are firm believers in these principles. But how can the industry use mutuality to differentiate itself from stock companies?
- There is a distinct understanding that diversity is a front burner issue – though still controversial. How can the mutual industry with its many small-town companies make progress?
- Competition, digitization and need for technology investment, changing customer needs and other forces could be exerting enough pressure to create changes in distribution practices and accelerate consolidation in the mutual industry.

CONCLUSION

As noted earlier, this thought leadership research is not an end in itself. Rather, it is meant to be a beginning of a dialogue among NAMIC members about the important issues facing the industry because of the pandemic and because of all the other pressures mutual companies face. To spur this dialogue, NAMIC will be working on ways to engage members in discussions about what these findings mean to their individual companies and what industry responses would be most appropriate and impactful.

MARKET ANALYSIS METHODOLOGY & TECHNICAL NOTES

GENERAL

Insurance companies were assigned to one of three segments based on an internal review conducted by NAMIC and Aon, classifying each insurer as a policyholder-owned "mutual," a shareholder-owned "stock," or "other"[1].

Using financial data for groups and unaffiliated singles as provided by S&P Global's Market Intelligence and NAMIC, two types of aggregate metrics were calculated for each segment and the three segments as a group: sums for dollar-denominated fields such as premiums and cumulative metrics for ratios such as the net commission expense ratio.

For example, in calculating the cumulative loss and LAE ratio for the mutual segment, the sum of all mutual earned premium was divided by the sum of all mutual's loss and LAE incurred, where no special weighting was given based on size of a company. This approach allows for a more holistic view of each respective segment.

FURTHER COMMENTS ON NAMIC AND AON'S INTERNAL REVIEW OF COMPANY CLASSIFICATION

Previously, the Benchmark Study for AM Best Rating's section included an "Others" segment; however, due to a limited number of insurers classifying as "other" within AM Best's database, NAMIC and Aon carefully reviewed each company and reclassified these companies as either "mutual" or "stock" based on the company's history and operations.

OTHER NOTES

Aggregate combined ratios are the sums of aggregate expense ratios, aggregate loss and loss adjustment expense ratios, and aggregate dividend ratios, rather than weighted averages. Similarly, aggregate operating ratios are the sums of aggregate combined ratios and aggregate investment ratios.

Quarterly data is as of September 4, 2020, and data may later change or be incomplete due to late filers, consolidation issues, amended financials, etc.

Five-year data is representative of all companies operating in 2019. This data will not include any companies that were removed from S&P Global's Market Intelligence database. For example, Merced Property & Casualty Company will not be included in any of the 5-year data even though it operated until 2017.

[1] *LLCs, U.S. branch of alien insurers, insurance pool of trusts, and syndicates.*

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