THE MUTUAL FACTOR

2025 MIDYEAR UPDATE

NAMIC® NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES | AON

THIRD ANNUAL MUTUAL FACTOR REPORT MIDYEAR UPDATE

Now in its third year of publication, this midyear update provides a fresh look at the close of 2024, the general state of the industry, and the opportunities and challenges that lie ahead for mutual insurers.

REVISITING THE 2024 MUTUAL FACTOR REPORT

When the Mutual Factor report was published in 2024, we in the industry were confronted with many forces outside of our control - weather being a prime example. Insurance companies were also facing many headwinds while actively managing their portfolios appropriately, i.e., the increase in leverage ratios as proper ratemaking earned through books of business at a faster rate than capital growth.

As climate volatility, legal system abuse, and tempering, but still positive, inflationary trends maintained their pressures on the industry, the 2024 Mutual Factor report provided a data-driven framework for sharing perspective on the overall results for mutual and stock insurers, as well as further segmentation for the industry. In the true spirit of mutual companies, we continue to strive to learn from one another for the good of our industry. The report was able to help NAMIC members analyze the differences being experienced across regional markets and see the considerable progress being made to strengthen the industry following the impacts of the confluence of forces mentioned above.

KEY TAKEAWAYS FROM SEPTEMBER'S REPORT

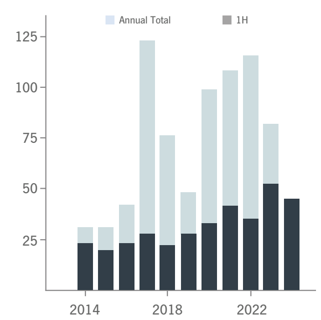
While 2023 and 1H 2024 continued to be challenging for many mutuals, there were some favorable key takeaways to recognize:

- Mutual surplus grew by 3.2% in 2023;
- 86% of mutuals with rating action had their rating affirmed (through June 2024);
- Mutuals posted a 103.6% combined ratio in a challenging Q2 24, but balance sheets remained strong;
- Over the longer term, mutuals have less volatile combined ratios as compared to stock companies;
- At the time the report was published, the industry was awaiting the end of the 2024 hurricane season, where heightened activity was broadly forecasted by industry experts.

INDUSTRY RESULTS THROUGH Q2 2024

In the first half of 2024, an active natural catastrophe season was felt throughout the industry. Above-average activity in certain U.S. regions were reported due to an overall increase in tornadoes and rising sea surface temperatures. Natural disasters occurring across the United States accounted for nearly 80% of insured losses globally during 1H 2024. U.S. severe convective storms made up the majority of 1H 2024 global insured catastrophe losses, a driving contributor to 2024's broader catastrophe experience for the industry.

U.S. Insured Losses Q1/Q2 2024 ($B)



Data: Aon Catastrophe Insight

Top Five Costliest Global Insured Loss Events - Q1/Q2 2024

Date	Event	Location	Fatalities	Insured Loss (2024 $ B)
03/12-03/16	Severe Convective Storm	United States	3	4.7
05/06-05/10	Severe Convective Storm	United States	6	4.0
05/17-05/22	Severe Convective Storm	United States	5	3.8
06/01-06/07	South Germany Floods	Germany	6	2.7
05/25-05/26	Severe Convective Storm	United States	26	2.3

Data: Aon Catastrophe Insight

The sections that follow detail how 2024 ended as well as some of the main opportunities and challenges currently facing mutual companies.

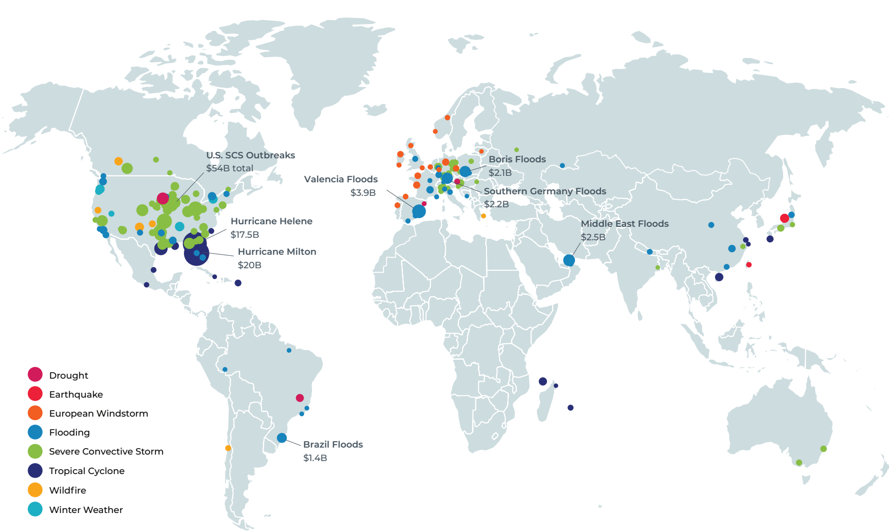
KEY TOPIC UPDATE: GLOBAL CATASTROPHE LOSS ACTIVITY

Reinsurance is a global business supported by capital providers across the insurance value chain that aim to efficiently match risk and capital. As we consider the performance of the reinsurance sector later in this report, having perspective on the loss activity across the globe is critical to understanding the industry results and the potential impact on the future appetite and expectations of key capital sources and the broader industry.

GLOBAL CATASTROPHE LOSSES - FULL YEAR 2024

Global insured losses from natural disasters in 2024 are estimated at $145 billion, well above the short-medium and long-term averages. Approximately 40% of global economic losses were thus covered by private or public insurance, which constitutes a relatively low global protection gap of 60%.

Significant 2024 Global Insured Loss Events

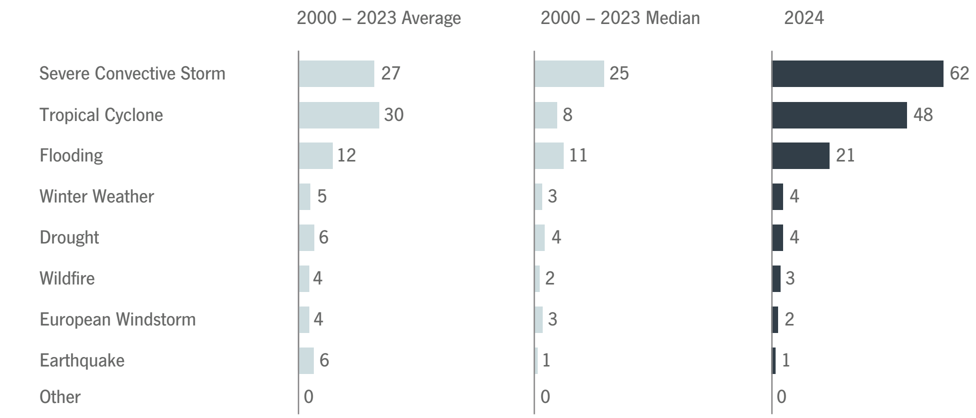


Data: Aon Catastrophe Insight

Global losses were almost entirely driven by severe convective storms, tropical cyclones, and flooding. The four costliest events occurred in North America, primarily in the United States. For the seventh consecutive year, secondary perils outpaced those described as primary, mainly due to another calendar year characterized by relentless SCS activity in the United States and a nearly record-breaking number of billion-dollar events. As we have seen in past years, heightened SCS activity generally impacts the results of mutuals at a meaningful quantum.

The SCS peril resulted in the highest aggregated annual losses. However, its dominance was not as pronounced as in 2023, when it was responsible for about 60% of total global losses. Tropical cyclone and flooding followed; all other perils generated global insured losses below their respective long-term averages.

Global Insured Losses From Natural Disasters (2023 $B)



Data: Aon Catastrophe Insight

KEY TOPIC UPDATE:
U.S. CATASTROPHE LOSS ACTIVITY IN 2024

U.S. CATASTROPHE LOSSES – FULL YEAR 2024

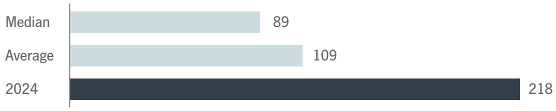
Economic losses from natural disasters in 2024 remarkably exceeded $200 billion for just the third time since 2000 and reached $218 billion, double the average across the same period. Hurricanes Helene and Milton dominated the U.S. losses, aligning with the expectation of a heightened season of hurricane activity shared by many researchers and industry experts.

Hurricane Helene caused catastrophic damage across the Southeast and became the deadliest natural disaster in the mainland United States since Hurricane Katrina hit in 2005. Roughly $75 billion in economic losses and $17.5 billion in insured losses were incurred. One of the defining features of this event was the abundant rainfall seen over Southern Appalachia well ahead of Helene's landfall in Florida. As Helene traversed the eastern Gulf of Mexico, the storm became wedged between a high-pressure system over the western Atlantic Ocean and a low-pressure area to its northwest. Due to the orientation of Helene's surface winds between these two systems, a large channel of tropical moisture surged across the Southeast. Once inland, this moisture lifted into the atmosphere due to a pre-existing frontal boundary and the mountainous terrain of the Appalachians, resulting in continuous heavy rainfall. More than 10 inches (254 mm) of rain fell across Southern Appalachia in the days prior to Helene's landfall, leading to over-saturated soils heavily susceptible to flash flooding.

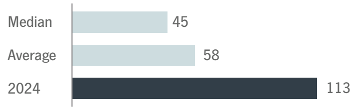
Hurricane Milton narrowly avoided a much greater catastrophe for western Florida by tracking just south of Tampa Bay. Nevertheless, impacts from flooding, storm surge, wind, and even several strong tornadoes generated approximately $35 billion in economic losses and $20 billion in insured losses.

While both hurricanes brought devastation to the areas impacted, the significant changes made to reinsurance programs - namely retention increases - and pricing tempered the overall impact to the reinsurance market from both events.

U.S. Economic Losses (2024 $B)



U.S. Insured Losses (2024 $B)

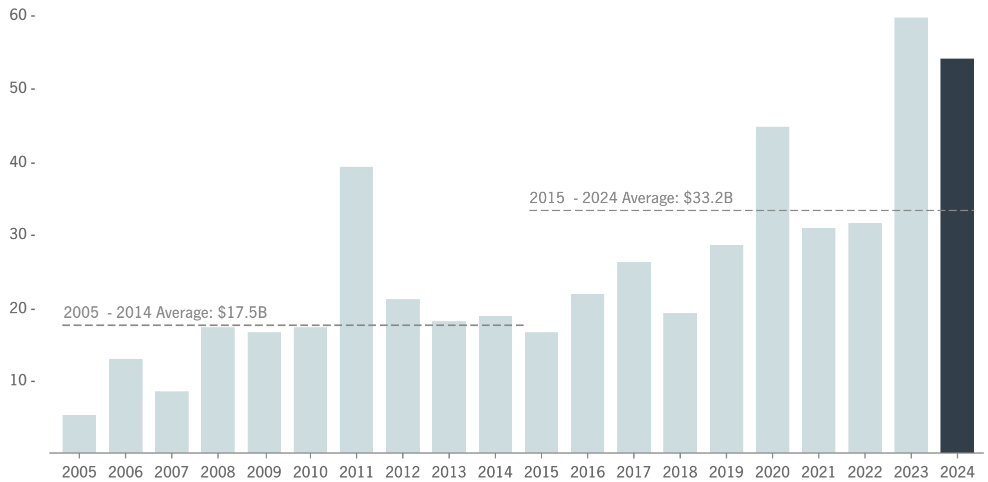


Data: Aon Catastrophe Insight

KEY TOPIC UPDATE: MANAGING SEVERE CONVECTIVE STORMS

Severe convective storms in 2024 made up a large share of the year's aggregated losses. For the second consecutive year and second time on record, SCS-related insured losses crossed the $50 billion mark. With $54 billion and $69 billion in insured and economic losses, respectively, as well as 17 SCS-related billion-dollar disasters, all three figures recorded in 2024 remain only behind those set in 2023 from a historical perspective. While much of SCS-related losses were attributable to hail, tornado-related impacts were also exceptional. More than 1,800 preliminary tornado reports were submitted to the Storm Prediction Center in 2024, the most since 2011. This encompassed multiple large tornado outbreaks, including eight separate days with more than 50 preliminary tornado reports. Straight-line wind impacts were also significant, as at least five derechos occurred across the central United States, causing notable damage in cities such as Houston and Chicago.

U.S. SCS Insured Loss (2024 $B)



Data: Aon Catastrophe Insight

SCS have caused $33 billion of insured loss in the United States annually on average since 2015, a 90% increase from the prior decade average on a trended basis. More than 80% of the increase in SCS losses is attributed to exposure growth versus changes in weather patterns, underscoring the importance of sound insurance fundamentals when it comes to managing the impacts of weather volatility on insurance company portfolios.

THE JOINT CHALLENGE FOR THE INSURER AND THE INSURED

Closely aligned with loss activity from SCS, the increased frequency of asphalt shingle roof replacements presents a profitability challenge for insurers. Recent findings indicate that these roofs are far more vulnerable to damage from SCS than previously thought. A post-event aerial imagery study conducted by the Insurance Institute for Business & Home Safety following the 2020 Midwest derecho offers valuable insights into the performance of asphalt shingles in a SCS event. It revealed that asphalt shingle roofs are extremely susceptible to straight-line wind damage as early as eight to 10 years after installation despite the 20- to 25-year lifespan advertised by roofing manufacturers. This shorter lifespan can lead to increased insurance claims frequency through more frequent roof replacements.

Current types of insurance coverage offered to policyholders may need to be adjusted by implementing a different deductible structure for roofs compared to the rest of the home. An alternate option is to explore co-pays for roof repairs or replacements, thereby sharing the financial burden between the policyholder and the insurer for the roof only.

The industry continues to evolve its product offerings in an effort to offer a sustainable solution at price points customers can afford. While various states and geographies are at different stages of this evolution, this is a universal focus of property insurers across the United States.

LOSS MITIGATION AND REDUCTION STRATEGIES

In addition to the evolution of available products and coverages, the industry has continued to unite around the concepts of educating consumers and sharing in the responsibility of building more resilient exposures and portfolios. This shared accountability between policyholders and insurers aims to guide the industry to a place where affordable insurance is widely available in markets that foster fair competition among competing insurers. Included in this evolution is a heightened awareness of the need for:

Policyholders to perform regular maintenance and timely repairs of shingle roofs to significantly reduce the likelihood of severe damage. Educating homeowners about the importance of roof upkeep and providing incentives for proactive maintenance can help lower claims frequency.

Insurers to appropriately capture roof cover and roof age data so they can accurately underwrite and price the risk while providing targeted risk advice and adaptation solutions. Best-in-class insurers carefully manage SCS risk by:

- Monitoring peak exposure concentrations and understanding location-level risk;
- Implementing a holistic view of SCS cost drivers in pricing to ensure rate adequacy;
- Considering the strengths and weaknesses of catastrophe models and leveraging those that reflect the latest view of SCS trends and historical experience;
- Proactively tracking catastrophe events using real-time data sources to assess event impacts as they unfold and ensure that claims are settled quickly and efficiently to minimize loss settlement costs.

KEY TOPIC: MAY 2025 SCS EVENT

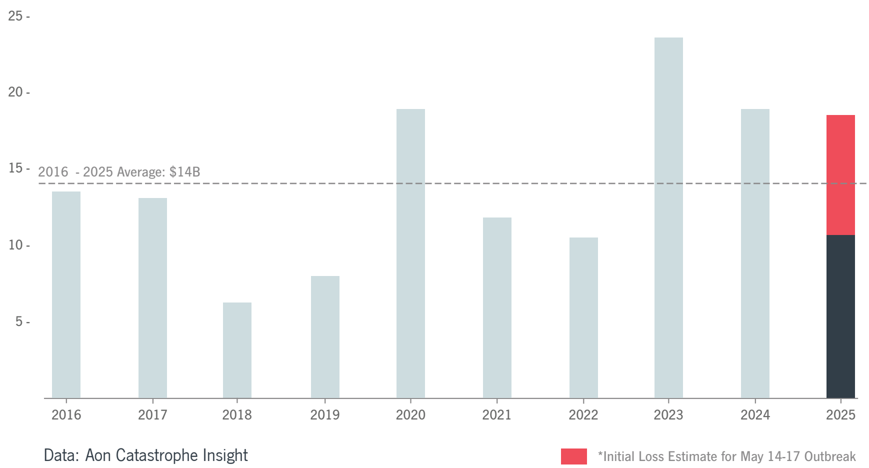
From May 14-17, 2025, a powerful SCS outbreak swept across the central and eastern United States, driven by a strong surface cyclone and cold front. The event produced widespread destructive weather, including softball-sized hail in Wisconsin, long-track tornadoes in Indiana, Kentucky, and Missouri, and wind gusts exceeding 80 mph. With more than1,400 storm reports—including 85 preliminary tornadoes and 89 hail reports of two inches or more—the outbreak caused extensive damage in densely populated areas, particularly Eau Claire, Wisconsin, and St. Louis, Missouri. Estimated insured losses exceed $7 billion, making it one of the costliest SCS events in U.S. history.

Event Name	Month/Year	Top States	Economic Loss ($B)	Insured Loss ($B)
Midwest Derecho	Aug 2020	IA, MN, IL, IN, MO	$16.8	$11.3
Super Outbreak (Tuscaloosa)	April 2011	AL, TN, TX, GA, AR	$14.5	$10.8
Joplin Tornado Outbreak	May 2011	MO, OK, AR, KS, TX	$12.9	$9.9
Central & Eastern U.S. SCS Outbreak	May 2025	WI, IL, MO, KY, TX	-	$7.0+
Central U.S. Tornado Outbreak	May 2003	KS, MO, NE, AR, TN	$7.9	$5.8
South & Ohio Valley SCS Outbreak	May 2024	OK, OH, TX, IL, MO	$6.7	$5.3
South & Tennessee Valley SCS Outbreak	March 2023	TX, KY, IN, OH, AL	$6.5	$5.2
Eastern U.S. SCS Outbreak	March 2025	IL, MO, IN, OH, PA	$6.3	$5.0
Central U.S. SCS Outbreak	March 2024	TX, MO, KS, OH, IN	$6.1	$4.9
Central Plains to East Coast Outbreak	June 2023	CO, IN, KY, AR, TX	$6.0	$4.9
Midwest / Eastern U.S. Tornado Outbreak	Mar/April 2023	IA, IL, IN, OH, WI	$5.8	$4.6

Data: Aon Catastrophe Insight

Prior to May 2025, incurred loss from SCS activity was running well below the 10-year average. However, with this mid-May event, 2025 is trending well above the 10-year average.

U.S. SCS Insured Loss YTD May 1 (2025 $B)

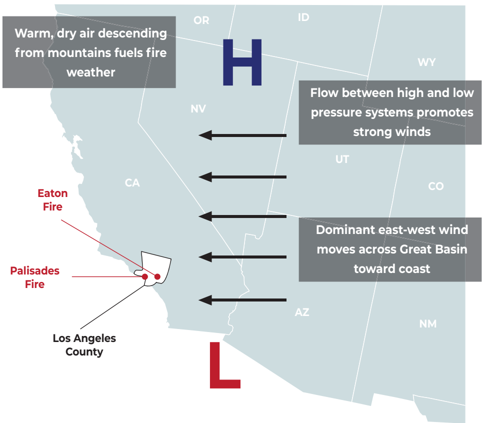


Data: Aon Catastrophe Insight

KEY TOPIC UPDATE: CALIFORNIA WILDFIRES – AN ACTIVE START TO 2025

During just the second week of 2025, several fires ignited in Southern California, causing unprecedented catastrophic damage across parts of Los Angeles County. Driven by ideal wildfire conditions, including a powerful windstorm and preceding drought, the Palisades and Eaton fires rapidly expanded, spreading into the Pacific Palisades and Altadena communities, respectively. Both fires are widely considered to be the costliest in U.S. history.

The Palisades and Eaton fires sparked on January 7 and were active for nearly a month, destroying thousands of buildings. There were many factors behind the severity of these fires, including long-term drought, high temperatures, fire-exacerbating vegetation, and terrain. In addition to these drivers, the most impactful factor for fire spread were Santa Ana winds. These extremely dry and strong katabatic winds originate from the Intermountain West, the Great Basin that covers much of Nevada. When this occurs, winds flow from a high-pressure airmass over the Sierra Nevada mountain range, sweeping away a great deal of atmospheric moisture in the process. Unfortunately, fire suppression efforts were partially hindered due to these winds oscillating in strength for more than two weeks following January 7.



	Palisades Fire	Eaton Fire
Ignition Date	January 7	January 7
Active Days	24	24
Area Burned (acres/hectares)	23,707/ 9,594	14,021/ 5,674
Damaged Structures	973	1,074
Destroyed Structures	6,837	9,414
Preliminary Economic Loss ($B)	27.5	25.0
Preliminary Insured Loss ($B)	20.0	17.5

According to real-time data on wind speed and area burned, there was a clear relationship between these two factors. In just the first 24 hours of the Palisades Fire, more than 11,000 acres (4,400 ha) quickly burned under maximum wind gusts exceeding 55 mph (90 kph). Simultaneously, the Eaton Fire resulted in a similar rapid burn due to even stronger wind gusts. In the following 72 hours, wind speeds severely diminished as the aforementioned Santa Ana setup began to break down. During this period, the Palisades Fire roughly doubled in size to 23,000 acres (9,300 ha) while the Eaton Fire grew much slower to 14,000 acres (5,700 ha). Although both fires were contained in less than a month, each saw at least 50% of the burned acreage occurring within the first 24 hours from ignition.

KEY TOPIC UPDATE: LEGAL SYSTEM ABUSE

Legal system abuse continues to be a headwind for the industry, with numerous states and jurisdictions navigating the challenges at varying levels of impact and maturity. In general, the causes of legal system abuse are varied and complex and can be driven by:

- Third-party litigation financing changes, which incentivize parties to bring cases and settle them;
- Increased anti-corporate bias and awareness of inequality potentially leading to larger verdicts;
- Plaintiffs' bar embracing data analytics, behavioral science, and advanced marketing techniques to generate more clients and larger verdicts.

This phenomenon is one of the main factors driving increases in casualty severity loss trends. In many instances, industry liability loss ratios that have developed are worse than initially assumed due to these trends. While some states have started to introduce or even pass legislation to counter these trends, companies must stay vigilant.

KEY TOPIC: ARTIFICIAL INTELLIGENCE

When initial artificial intelligence models were rolled out a few years ago, they were unimodal, as they could only handle text data. Today, generative AI tools are mulit-modal; they can handle not just text but videos, audio, large files, etc. With the ability to handle different types of data at the same time, AI tools can now produce a more comprehensive picture of the data that can benefit insurance companies and policyholders.

In line with the industry's increased spend in AI, mutual insurers plan to make significant investments in 2025 and beyond. It is anticipated that companies will look to invest in AI solutions that drive operations efficiency, claims mitigation, and risk management. Some of the most common use cases for AI are to:

- Analyze historical data accurately to predict future claims;
- Forecast the complexity of claims for better resource allocation;
- Automate information extraction from unstructured documents;
- Personalize customer service by incorporating claims and account knowledge to resolve questions; and
- Assess claims and identify irregularities and fraud.

To successfully use AI, insurers need to align their AI strategies to their business needs and think about how that impacts technology, talent, and operations holistically. With the advancement of AI capabilities making the technology more cost effective, organizations can efficiently integrate these tools without needing large budgets or specialized teams.

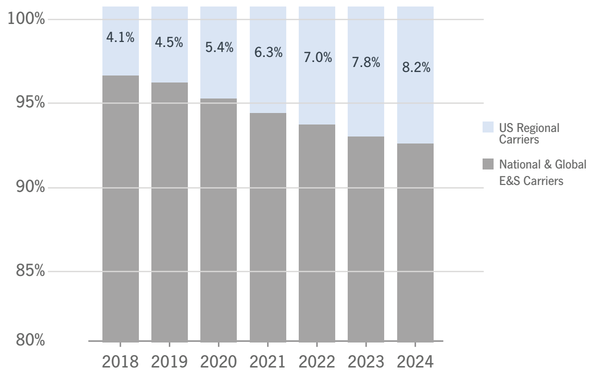
KEY TOPIC:
EXCESS & SURPLUS LINES

While excess and surplus lines is traditionally a sector that national and global carriers have participated in, more mutual and regional insurers have expanded into the space. While still less than 10% of the U.S. E&S market, regional insurers have continued to gain market share year over year. Additionally, U.S. direct written premium growth for regional insurers in E&S has outpaced national and global carriers, producing a 26% average annual growth over the last three years.

Commercial auto liability and commercial property lines make up the bulk of the E&S market for insurers. While still a small portion of the total E&S segment, the homeowners line of business has grown significantly. E&S homeowners lines experienced double-digit growth across all states but Alabama and Alaska in 2024.

As the E&S market provides flexible policy language and more timely rate revisions, growth in this sector is expected to continue to outpace the admitted space.

E&S Market Share

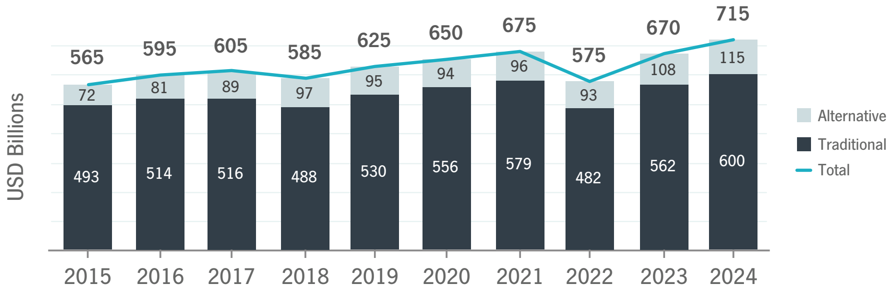


Source: S&P Capital IQ, Aon Reinsurance Solutions

KEY TOPIC: EVOLVING REINSURANCE MARKET CONDITIONS

Strong results and growing capital positions boosted competition among reinsurers during the January and April renewals. The industry saw ample capacity, more flexibility in terms, and softening of pricing from the heightened rate levels that took hold in 2023. Global reinsurer capital rebounded to a new high of $715 billion over the last two years, driven by strong earnings and recovering asset values. The increase in supply helped fuel the tempering of reinsurance terms and pricing, most notably in the property lines.

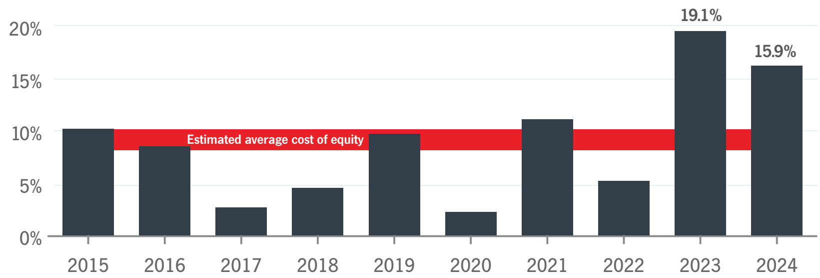
Global Reinsurer Capital



Source: S&P Capital IQ, Aon Reinsurance Solutions

Business growth, a moderated amount of ceded catastrophe loss, and favorable capital markets generally combined to generate a second year of strong earnings for reinsurers in 2024. The average return on equity across 29 companies monitored in the reinsurance segment was 15.9%. Additionally, the prior year benefitted from a one-off tax effect in Bermuda. The graph below clearly illustrates reinsurers more than returning their cost of capital for the second consecutive year.

Reinsurer Sector Return on Equity



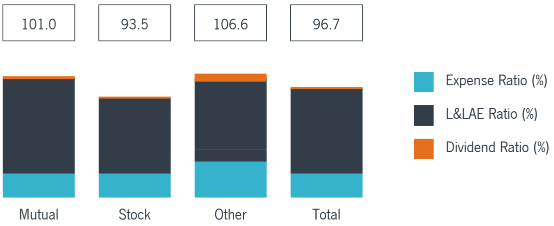
Source: S&P Capital IQ, Aon Reinsurance Solutions

Ceded losses from California wildfires are significant - Aon estimates $11 billion to $17 billion - with the level of impact on reinsurers' results varying significantly across the market. The largest reinsurers have reported 25% to 33% erosion of 2025 allowances for major losses. Notably, though, increased earnings guidance for 2025 have not been revised for many of the global reinsurers in the wake of these events. Sensitivity to major loss activity in the rest of 2025 has increased and the Atlantic hurricane season will be closely watched. No significant change in reinsurer appetite was noted at the April 1 renewals, and most buyers achieved better outcomes than the previous renewal. Aon expects demand for U.S. property cat limit to rise by more than $7.5 billion at the midyear renewals ($4 billion to $5 billion in Florida). A continuation of favorable market conditions is anticipated, as reinsurers look to meet 2025 growth targets and/or offset losses in Q1. Continued interest in the insurance segment from capital markets stands to continue to support the supply needed to match the increase in demand for risk transfer solutions.

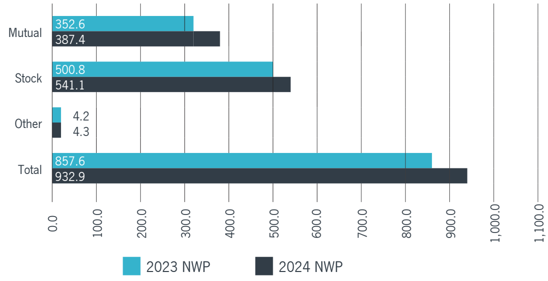
KEY TOPIC: HOW DID YEAR-END 2024 RESULTS LOOK FOR INSURERS?

Although natural catastrophe activity in 2024 was well above average, the insurance industry returned to profitability for year-end financials. The increased rates and other underwriting actions that companies took in 2023 were able to earn in throughout the year. The investment market performance over the course of 2024 also helped the industry reach a record-level surplus of $1.1 trillion. Below are some key metrics that will be further explored in the 2025 Mutual Factor report.

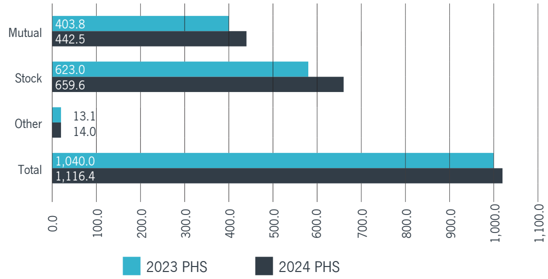
2024 Combined Ratio Breakout (%)



Change in Net Written Premium ($M)



Change in Surplus ($M)



ANNUAL CHANGE (%)										
	Mutual	**Stock**	**Other**	**Total**			**Mutual**	**Stock**	**Other**	**Total**
NWP Change	9.9	8.1	1.4	8.8		PHS Change	9.7	5.9	6.6	7.3

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ABOUT AON

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ABOUT NAMIC

The National Association of Mutual Insurance Companies consists of nearly 1,300 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 $383 billion in annual premiums and represent 61 percent of homeowners, 48 percent of automobile, and 25 percent of the business insurance markets.