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Slow and Steady

While some of the top U.S. property/casualty mutuals hit rough seas in 2022, the sector continues to steer toward long-term financial stability.
Mutual Sector Coverage
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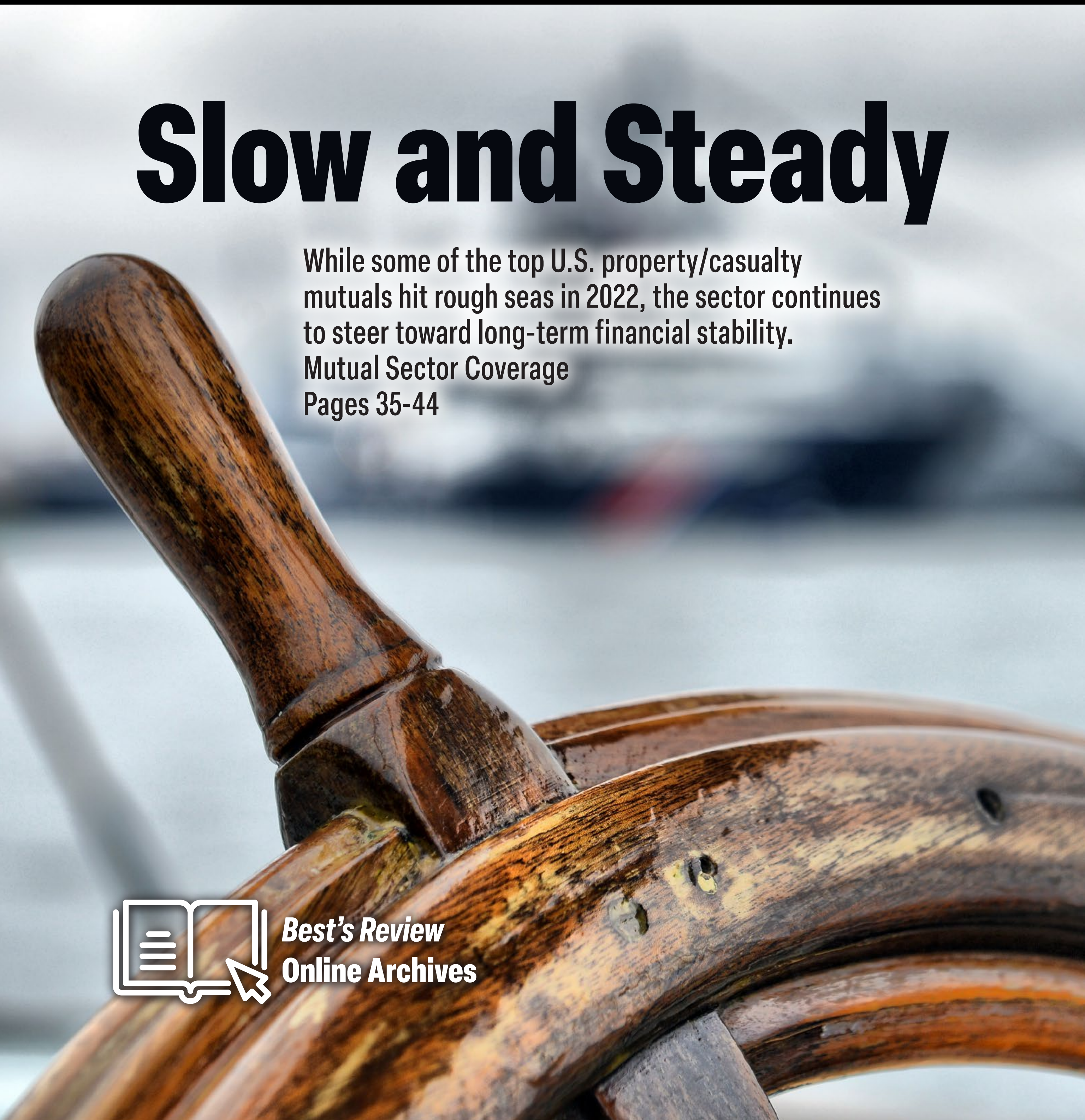

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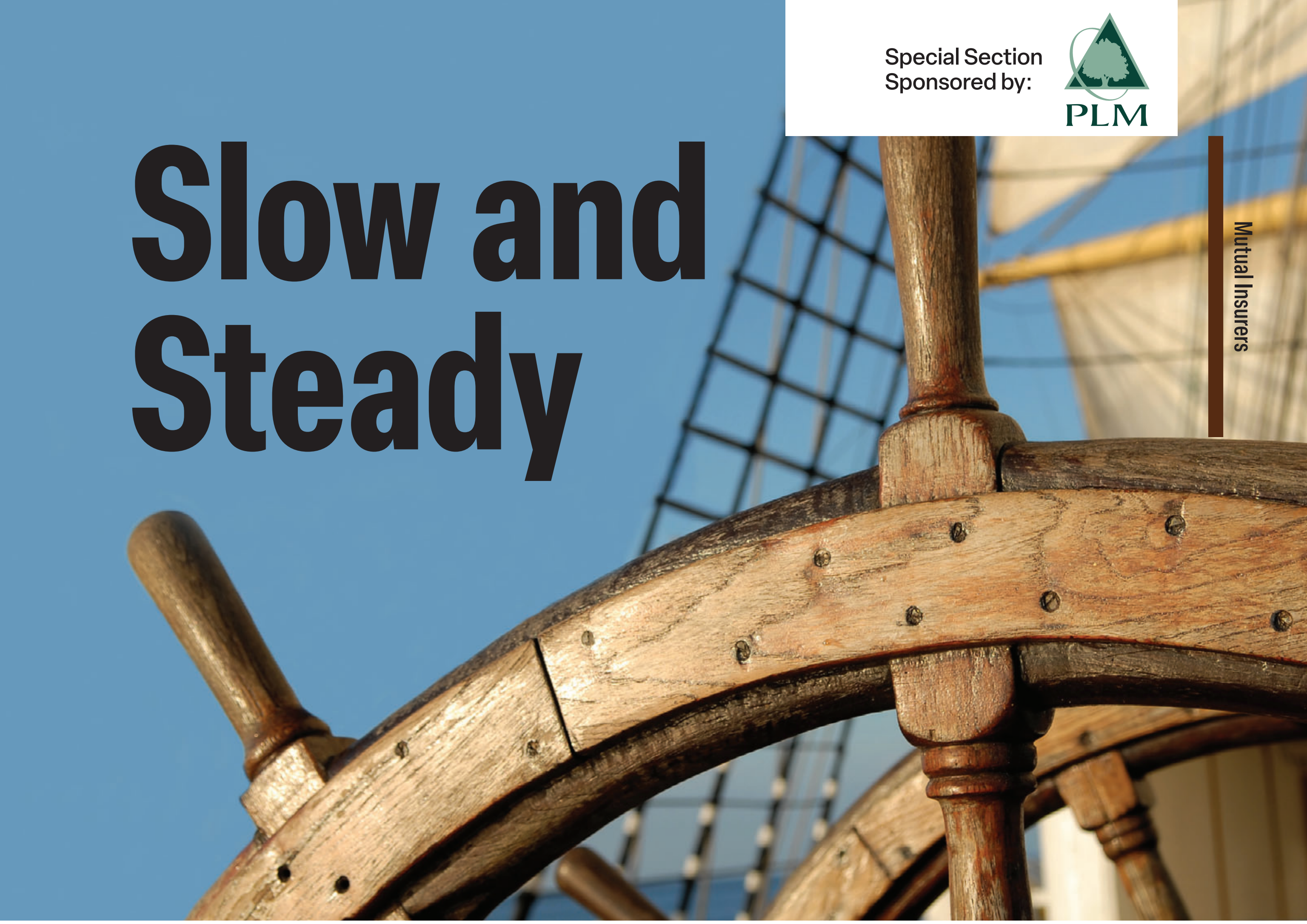

Mutual insurers often speak about how they put their policyholders first, seeking long-term financial stability while stock companies come under greater pressure to meet investor expectations quarter after quarter. For property/casualty mutuals, this might mean aiming for a combined ratio that's somewhat higher than what a stock company might want. AM Best data shows that in 2022, property/casualty mutuals posted a net loss while stock carriers had a profit. Life/health mutuals, meanwhile, saw their total direct premiums written rise by $28.39 billion, a growth of 13.6%, in 2022 while stock carriers had a 4.8% increase in direct premiums written.

In the following articles, *Best's Review* examines AM Best data and the performance of both property/casualty and life/health mutual insurers. A ranking of the top property/casualty and life/health mutuals is also included. BR

The Mutual Insurance Special Section is sponsored by Pennsylvania Lumbermens Mutual Insurance Co.

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The Mutual Mindset: Slow and Steady

While property/casualty mutuals hit rough seas in 2022, they typically steer toward long-term financial stability.

by Anthony Bellano

When comparing stock and mutual companies in today's insurance market, AM Best Director Brian O'Larte uses seacraft to make an analogy.

Stocks are the speedboats, zipping around unpredictably, promising much faster—but riskier—adventure. Mutuals, meanwhile, are the cargo ships, lumbering across the seas as they carefully and methodically weave toward port.

"It takes a long time to make the turn," O'Larte said. "They have to do it slow and steady, and that's the mutual mindset."

Anthony Bellano is an associate editor. He can be reached at *anthony.bellano@ambest.com*.

With net premiums written of $246.32 billion in 2022, property/casualty mutuals make up a significant portion of the overall U.S. property/casualty sector's $782.31 billion in net premiums written. Stock companies had net premiums written of $446.2 billion, according to BestLink.

Mutual insurers have generally plotted a steady course with financial stability as a key goal. Indeed, between 2016 and 2021 only one mutual company became impaired, according to an April 2023 Best's Special Report titled *2021 US Property/Casualty Impairment Update*. That compared with 55 stock companies.

For property/casualty mutuals last year, however, the ride was a little choppy.

Property/casualty mutuals posted a net loss of $6.2 billion in 2022, down from a profit of $12.25 billion in 2021, according to BestLink. Stock companies, by comparison, had net income of $55.28 billion, up from $48.51 billion in 2021.

The underwriting performance for mutuals also deteriorated in 2022, with the combined ratio rising to 108.9, up from 103.6 in 2021. For stock companies, the combined ratio deteriorated only slightly, increasing to 97.7 in 2022, from 96.9 in 2021.

Return on equity was -7.1 in 2022 for mutuals, down from 10.3 in 2021. For stock companies, return on equity was -3.3 in 2022, down from 20.3 in 2021.

Catastrophe losses are often a major factor in the performance of property/casualty insurers. “Insured catastrophe losses in the United States in 2022 were significant, reaching an estimated $99 billion, according to Aon, representing 75% of the global insured loss total of $132 billion,” according to a July Best’s Special Report titled *2022 P/C Snapshot: Unprofitable Auto and Property Results Weaken P/C Underwriting Performance*. “U.S. natural catastrophes in 2022 included Hurricane Ian, which generated an estimated $50 billion to $55 billion in losses.”

The difference in the performance of mutuals versus stock companies, however, can be chalked up to a few mutual behemoths that got hit particularly hard, especially in the private passenger auto line, in 2022, according to AM Best Associate Director David Blades.

While catastrophe losses had an impact on homeowners and commercial property results for both mutual and stock companies, private passenger auto was the loss leading line for the U.S. property/casualty industry in 2022.

The private passenger auto line reported an underwriting loss of more than $33 billion in 2022, almost eight times higher than in 2021, according to the Best’s Special Report.

Consider the performance of State Farm, the No. 1 mutual company in terms of private passenger auto market share, and Progressive, the No. 1 stock company.

State Farm produced a total (all lines) net underwriting loss of $13.2 billion, while Progressive produced a total net underwriting gain of $1.7 billion, according to BestLink data.

State Farm’s pure net loss ratio on private passenger auto liability was 92.6, 15.1 points worse than the total property/casualty industry pure net loss ratio for private passenger auto liability of about 77.5. Progressive, on the other hand, produced a pure net loss ratio of 62.2, 15.2 points better than the total property/casualty industry pure net loss ratio on private passenger auto liability, according to BestLink data.

“It takes a long time to make the turn. They have to do it slow and steady, and that’s the mutual mindset.”
Brian O’Larte
AM Best

“Why Progressive’s loss ratio was so much better than State Farm’s would take much deeper analysis into their individual books of business, but comparing the results for the No. 1 stock and No. 1 mutual company, one finds a vast difference in their 2022 private passenger auto performance that is impactful for their respective industries,” AM Best’s Blades said.

“When one analyzes the performance of the leading stock and mutual companies from 2022, how well or poorly those companies performed on the two lead lines of coverage, private passenger auto and homeowners multiperil, for which many were the market leaders, likely holds the key to understanding the differences in the overall

> "That's the thing about this industry that is good. It's been through world wars and great depressions and a lot of other economic calamities, and it's always been able to weather the storm."
> **Neil Alldredge**
> National Association of Mutual Insurance Companies

performance for mutual versus stock companies.

"The mutual companies, at least the leaders, were probably hurt by their results on both private passenger auto and homeowners," Blades said.

Some mutuals structure their business so they have a combined ratio near the 100 mark. Matt Lyon, president and chief executive officer of WCF Mutual, Utah's largest workers' compensation carrier, explained:

"We don't need a big underwriting profit to succeed as a mutual. We're probably going to be more aggressive when we need to take rate on business to keep prices low for our customers. We're going to try to price our business closer to a 99 combined ratio than some of the public companies.

"We're also focused on doing what's right for the customer, which a lot of times might be in conflict with premium growth and profit," he said. "We want to make sure we're growing our surplus each year, but we don't need to maximize that for the benefit of shareholders."

Affinity Mutual Insurance Co. President and Secretary Brent Helmke agreed.

"We're here for the policyholders. They are the owners. When we go through and review our numbers every year, we're a little more comfortable having a higher combined ratio than stock companies because we're here to serve our policyholders," he said.

Affinity Mutual is a Midwestern-based mutual insurance company writing primarily specialty commercial and related multiperil lines of business across a number of small specialty markets, including commercial woodworking, agribusiness and mercantile/nonmanufacturing, according to Best's Credit Report. Affinity Mutual has product risk concentration and, to a lesser extent, geographic risk concentration as a commercial property writer in a few Midwestern states, mainly Ohio and Indiana.

"That is how we take a look at everything when it comes to reviewing accounts and business activity. I think it's just having a customer focus. That's why I like being a part of a mutual, and I like the business model we have," Helmke said.

As a private mutual insurer, Alfa Insurance is focused on long-term strategic health, not short-term market expectations, said Angela Bradwell, the company's executive vice president and general counsel. Alfa ranks as the second-largest home and third-largest auto insurer in Alabama and consistently ranks among the top 75 insurers in the United States based on direct premiums written, according to a Best's Credit Report.

The group's three largest states—Alabama, Mississippi and Georgia—together account for more than 75% of its written premiums, according to the report.

"In developing and refining our strategy, we've had lots of discussions around 'what is the new normal' with respect to loss costs, inflation, supply chain, in conjunction with increased frequency of the severe convective storms in our geographic footprint," Bradwell said. "That's a conversation we have daily on how we adjust to keep those expenses and loss ratios in line."

While property/casualty mutuals had a challenging year in 2022, mutuals have a long history of weathering storms.

"That's the thing about this industry that is good," said Neil Alldredge, president and chief executive officer of the National Association of Mutual Insurance Companies. "It's been through world wars and great depressions and a lot of other economic calamities, and it's always been able to weather the storm.

"They were here 200 years ago, and they'll be here 100 years from now," he said. BR