

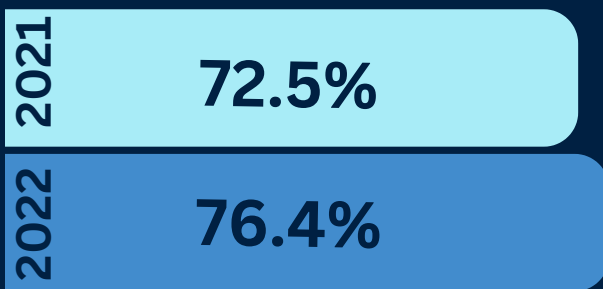
2024 Trends for Mutual Insurance

Insights from the 2023 Mutual Factor Report

As the mutual insurance industry steps into 2024, it contends with a complex array of challenges, particularly in the Midwest United States. The impacts of intense convective storms, legislative intricacies, and heightened insolvency concerns cast a significant shadow.

Key Highlights

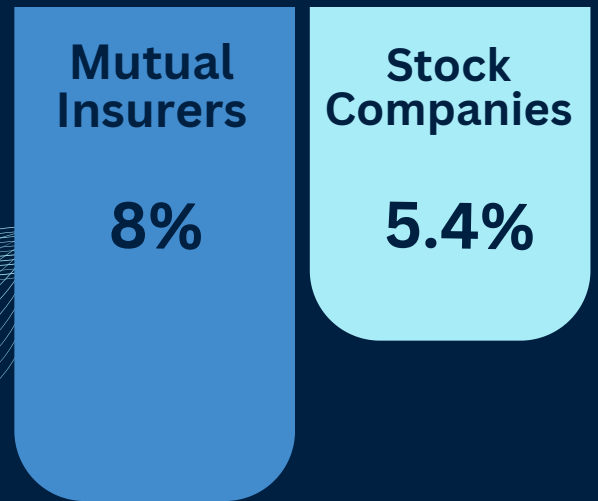
Losses and Adjustments Expense (LAE) Ratio



The mutual sector saw a rise in losses and LAE, leading to a 2022 loss and LAE ratio of 76.4%, up from 72.5% in 2021.

Capital and Surplus

In 2022, the industry's capital and surplus decreased by 6.4% from the 2021 peak of \$1.053 trillion. Mutual insurers contracted by 8%, and stock companies by 5.4%, with challenging underwriting results and investment volatility contributing to the surplus decline.



Industrywide Premium Leverage

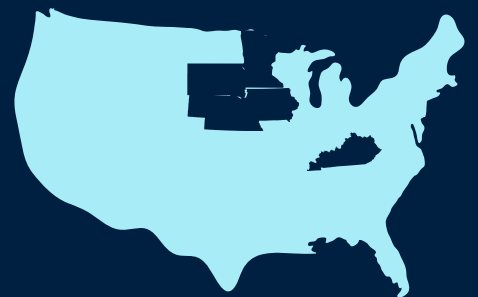


The decrease in capital and surplus resulted in increased industrywide premium leverage, diminishing the capital-to-premium ratio.

In 2022, both mutual and stock insurers had **\$1.26** in policyholder surplus supporting each dollar of net premiums written.

2024 Mutual Insurance Challenges

In 2024, the mutual insurance industry faces pressing challenges, especially for smaller mutuals in the Midwest. Steep reinsurance costs and the aftermath of poorly modeled severe convective storms lead to catastrophic events. This issue is notably evident in Midwest states like Nebraska, Kentucky, Minnesota, South Dakota, and Iowa, where storms have wreaked havoc in recent years.



1. Reinsurance Challenges



Midwest mutual insurers anticipate higher reinsurance costs due to escalating loss ratios from unpredictable severe convective storms (SCS) ahead of the January 1 renewals. Smaller players, relying heavily on reinsurance with limited capital, face increased vulnerability to rising costs and retained losses, raising concerns about potential insolvency in some Midwestern states.

2. Unpredictable Storms

The uncertainty surrounding severe convective storms erodes confidence among reinsurers, affecting not only larger mutuals but also smaller regional carriers. These inadequately modeled events prompt reinsurers to depend more on their judgment than traditional risk models, mirroring trends observed in Texas following Winter Storm Uri.



3. Insolvency Concerns



Concerns about insolvency are on the horizon, especially in states like Iowa, where legislative challenges introduce added complexity. Legislative adjustments, such as state statutes mandating unlimited reinsurance writing, have resulted in non-renewals, intensifying worries about insolvency, downgrades, and displaced policyholders.

4. Digital Transformation as a Resilience Strategy

Amid increased competition, higher customer expectations, and regulatory changes, mutual insurance companies must adopt technology for resilience. Digital solutions analyze customer data and operational metrics, while Robotic Process Automation (RPA) automates tasks, reducing errors and speeding up processes. These advancements are essential for mutuals to navigate challenges and remain competitive.



5. Competitive Pricing



Owned by policyholders, mutuals must prioritize competitive pricing alongside delivering outstanding customer service. Challenges encompass maintaining competitiveness without compromising quality, attracting new members, and effectively managing cash-flow concerns.

WaterStreet & Mutual Insurance

The mutual insurance industry's resilience serves as a testament to its commitment to policyholders despite external challenges. By embracing digital transformation and leveraging technology solutions, mutuals can navigate the storms, both metaphorical and meteorological, ensuring a robust and adaptive future for the mutual insurance industry.



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