September 16, 2022

Results Fluctuate for P/C Mutual Insurers Amid Elevated Losses

The rated P/C mutual insurers grew premiums but are struggling to grow policyholders' surplus in 2022, influenced by investment market volatility and underwriting pressures

Principal Takeaways

- Net premiums written (NPW) for rated mutuals continued to grow as they have in each year since 2010.
- Like the broader market, mutual insurers continue to face market challenges, including rising inflation, supply chain shortages, active weather events, and more costly reinsurance.
- Over 96% of the rated mutuals were assessed as having an Appropriate or Very Strong ERM framework in place.

Property/casualty mutual insurers have a common goal of serving policyholders, allowing management to concentrate on long-term financial stability. In a mutual organization (which includes reciprocal exchanges and insurance cooperatives), policyholders have a defined set of rights with specified ownership interests. Mutuals are policyholder-focused, but also emphasize increasing and preserving surplus. In 2021, rising inflation, supply chain shortages, active weather events, and more costly reinsurance pressured operating performance. Mutual insurers rated by AM Best were not immune to these factors but still reported surplus and premium growth.

Losses Increase, Along with Premiums

Pure losses for rated mutuals increased by 11.5% in 2021 (**Exhibit 1**). Net premiums written (NPW) continued to grow as they have in each year since 2010. For 2021, premiums grew at a higher rate as premium refunds, especially for the auto lines, subsided. NPW growth in recent years has benefitted from insurers placing a higher emphasis on rate adequacy offset by increasing reinsurance costs, which have been exacerbated by an elevated degree of weather-related events, specifically in the form of secondary perils.

Net income decreased by 17.5% in aggregate. Including policyholder dividends, the segment reported underwriting losses of $2.0 billion for 2020, which deteriorated to $12.0 billion in losses for 2021. Supply chain shortages have particularly impacted the auto lines, and secondary

Methodology

The P/C insurance companies discussed in this report are mutuals, insurance cooperatives, and reciprocal exchanges, which include risk retention groups and state funds, comprising 275 US-domiciled rating units as of December 31, 2021. A rating unit—either an individual insurer or a consolidation of companies—forms the basis for our rating evaluations. In general, the financial results of rating units represent the way insurance groups operate and manage their business. **Exhibits 1 to 8** are based on annual statutory data as filed with the National Association of Insurance Commissioners (NAIC). To be included, rating units must have at least five years of historical financial data, which many of the subsequent exhibits use for comparison. Historical financial information is "as-is," reflecting any structural changes that may have occurred since the initial record. Common examples include data resubmitted to or recalculated by AM Best for a prior period after a revision to historical data or industry mergers and acquisitions.

Analytical Contacts:
Lauren Magro, Oldwick
+1 (908) 439-2200 Ext. 5181
Lauren.Magro@ambest.com

Brian O'Larte, Oldwick
+1 (908) 439-2200 Ext. 5138
Brian.O'Larte@ambest.com

Contributors:
David Blades, Oldwick
Helen Andersen, Oldwick
Richard Attanasio, Oldwick

2022-123

perils have affected the homeowners' line. Inflationary pressures have cut across lines of business. Although still positive, pre-tax operating income declined by over 50% from the previous year. Partially offsetting these results was a slight increase in net investment income and a $4.3 billion increase in realized gains, as market conditions improved throughout the year from 2020 levels.

The ten largest rated mutuals accounted for 72% of NPW in 2021, and the top 25, 83% (**Exhibit 2).** This population is diverse but hasn't changed much over time. State Farm remains in the top spot, as its 24.4% market share is nearly double that of Liberty Mutual, in second place. Grange Insurance Pool, at #25, was the sole new entrant in this group in 2021. Only one rated mutual was removed from the population—State Auto Insurance Companies. This group held the #16 spot last year, but was acquired by Liberty Mutual Holding Company, Inc., in March 2022. There was some slight movement among the remaining companies.

The premium increase can be attributed mostly to homeowners, other liability, fire & allied lines, and most of the commercial lines (both liability and non-liability) (**Exhibit 3**). These lines also improved their loss ratios (**Exhibit 4).** In 2020, the pandemic resulted in personal auto insurers returning premiums to their policyholders via direct premium refunds and policyholder dividends (among other methods), which resulted in a modest premium decline. NPW in the personal auto lines were relatively stable in 2021, as private passenger auto liability NPW declined very slightly, while auto physical damage NPW increased about 1%.

Exhibit 1

US P/C Mutuals – Financial Indicators

($ billions)

	2020	2021	YoY % Change
Net Premiums Written	273.8	285.7	4.3
Net Premiums Earned	269.6	278.5	3.3
Pure Losses Incurred	161.1	179.7	11.5
Loss Adjustment Expenses (LAE)	28.5	28.8	1.0
Losses & LAE	189.6	208.5	10.0
Underwriting Expenses	75.6	78.2	3.4
Policyholder Dividends	6.9	3.8	-44.9
Underwriting Income/Losses*	-2.5	-12.0	NM
Net Investment Income	17.5	18.4	5.1
Other Income/Losses	0.3	0.9	NM
Pre-Tax Operating Income*	15.3	7.3	-52.3
Net Realized Capital Gains/Losses	2.9	7.2	NM
Taxes Incurred	1.6	0.7	-56.2
Net Income	**16.6**	**13.7**	**-17.5**

NM = Not material. Figures may not add up due to rounding.

*Includes aggregate write-ins for underwriting deductions and inclusive of policyholder dividends.

Source:

Exhibit 2

Top 25 US P/C Mutuals, 2021

2021 Rank		Company Name	NPW ($ millions)	Market Share (%)
1	—	State Farm Group	69,648	24.4
2	—	Liberty Mutual Insurance Companies	36,139	12.7
3	—	USAA Group	24,548	8.6
4	—	Nationwide Group	18,824	6.6
5	—	Farmers Insurance Group	15,965	5.6
6	—	American Family Insurance Group	12,661	4.4
7	—	Auto-Owners Insurance Group	9,654	3.4
8	—	Erie Insurance Group	7,997	2.8
9	—	FM Global Group	5,275	1.8
10	—	Auto Club Enterprises Insurance Group	4,604	1.6
11	—	CSAA Insurance Group	4,152	1.5
12	↑	Sentry Insurance Group	2,850	1.0
13	↓	COUNTRY Financial Property Casualty Grp	2,671	0.9
14	—	Auto Club Group	2,617	0.9
15	—	Amica Mutual Group	2,236	0.8
16	↑	Shelter Insurance Companies	2,047	0.7
17	↑	EMC Insurance Companies	2,029	0.7
18	↑	Federated Mutual Group	1,970	0.7
19	↑	Westfield Group	1,921	0.7
20	↑	Acuity, A Mutual Insurance Company	1,889	0.7
21	↑	West Bend Mutual Insurance Company	1,536	0.5
22	—	Tennessee Farmers Insurance Companies	1,508	0.5
23	—	Farm Bureau Property & Casualty Group	1,495	0.5
24	—	Alfa Insurance Group	1,446	0.5
25	↑	Grange Insurance Pool	1,374	0.5
		Top 25 Mutuals	**237,055**	**83.0**
		Total – P/C Mutuals	**285,656**	

Note: Market share is percentage of total P/C mutual NPW generated in 2021.

Source:

Mutual insurers continue to focus on pricing, prioritizing rate adequacy, and effectively managing rising reinsurance costs. Premium growth the past five years has been driven largely by consistent rate increases in the property lines, as well as by proactive rate increases in the auto lines—particularly personal auto, as it has a disproportionate impact on the segment.

For the personal auto lines, the pandemic created a favorable financial shock for a considerable improvement in incurred loss ratios in 2020. However, in 2021, the loss ratio increased by 8.6 points for private passenger auto liability and 16.5 points for auto physical damage (**Exhibit 4**). The deterioration in the loss ratio was likely influenced by both a return to normal frequency and the rise in severity due to inflation, supply chain pressures, and labor shortages.

Exhibit 3

US P/C Mutuals – Change in NPW Market Share by Line of Business

Line of Business	2020 NPW ($ millions)	2021 NPW ($ millions)	2021 Market Share (%)	
Private Passenger Automobile (Liability)	70,907	70,654	24.7	↓
Homeowners Multiple Peril	62,308	66,719	23.4	↑
Private Passenger Auto (Physical Damage)	51,771	52,357	18.3	↓
Other Liability & Products Liability[1]	13,498	15,696	5.5	↑
Workers' Compensation	12,663	12,566	4.4	↓
Commercial Multiple Peril (Non-Liability)	11,673	12,482	4.4	↑
Fire & Allied Lines[2]	11,176	12,366	4.3	↑
Commercial Automobile (Liability)	9,643	10,789	3.8	↑
Commercial Multiple Peril (Liability)	6,822	7,048	2.5	—
Inland Marine	5,286	5,745	2.0	↑
Commercial Automobile (Physical Damage)	3,659	4,104	1.4	↑
Farmowners Multiple Peril	3,760	3,985	1.4	—
Medical Professional Liability	2,850	3,131	1.0	—
Excess of Loss Reinsurance	2,982	2,985	1.1	—
Fidelity & Surety	1,718	1,727	0.6	—
Accident & Health	1,492	1,447	0.5	—
Boiler & Machinery	1,094	1,304	0.5	↑
All Other Lines[3]	536	552	0.2	—
Total	**273,838**	**285,656**	**100.0**	

[1] Includes excess liability, excess workers' compensation, directors & officers liability, environmental liability, professional liability, general liability, and employment practices liability.

[2] Includes earthquake, multiple peril crop, private crop, private flood, and federal flood.

[3] Includes mortgage guaranty, financial guaranty, ocean marine, aircraft, burglary & theft, credit, international, warranty, and aggregate write-ins.

Directional markers represent changes greater than 10 basis points up or down in market share from previous year.

Source: BESTLINK

Rising inflation makes it costlier to repair and replace automobiles. Both new and used cars are being valued at higher prices, and the growing costs of materials and labor are pushing claims costs up. Higher costs associated with legal fees and medical treatments also play a role. The homeowners market has not been immune to these factors, as property values and the costs of building materials continue to increase as well.

Furthermore, the auto lines have been particularly impacted by inflationary pressures and supply chain disruptions. Road travel has resumed to normal levels and the need for automobiles and parts has increased as a result, but the ability to meet demand has been strained. The ongoing chip shortage, combined with both material and labor shortages, has prevented automakers from meeting inventory needs and impeded the availability of parts. This has increased insurers' loss costs as well as the time needed to settle claims. Moreover, claims severity has intensified due to poor driver habits, which have worsened owing to distracted driving and speeding.

In response to the rise in loss costs, many insurers have actively sought rate actions. Companies have also focused on technological solutions to help reduce claims severity. However, the factors noted above have pressured pricing in the auto lines. But getting approval and implementing rates takes time and responsiveness has varied. Moreover, with inflation and costs still on the rise, relief from these pressures in the near term is unlikely.

The biggest movers after personal auto and homeowners—which accounted for more than two thirds of all mutual NPW in 2021—were other liability & product liability (whose premiums rose by approximately $2.2 billion and loss ratio improved by over 8 points) and commercial auto liability and commercial auto physical damage (whose premiums both rose by over 10%).

Decline in Overall Performance

The mutual segment's combined ratio has been above break-even each of the past five years, although it was relatively stable from 2018 to 2020. Elevated loss activity and various market stressors made 2021 a challenging year. Results for 2021 were driven by prolonged material and labor shortages, which, along with inflationary pressures, increased the costs of claims, repairs, and legal fees. In addition, another above-average catastrophe year, combined with the rise in frequency and severity of secondary perils, has led to price increases and tighter terms and conditions for reinsurance.

The homeowners' loss ratio improved in 2021, but the improvement was more of a return to historically normal levels, although the improvement wasn't enough to offset the volatility in the personal auto lines loss ratios. Consequently, in 2021, the pure loss ratio for the mutual segment was at its highest since 2017. The segment's combined ratio deteriorated to 103.5 in 2021, from 100.5 in 2020 (**Exhibit 5**).

Swings in the loss ratio have generally had the biggest impact on the combined ratio. The other components of underwriting performance—loss adjustment expense (LAE), underwriting expense, and policyholder dividends—exhibit relatively little volatility compared to the incurred loss ratio. Policyholder dividends were elevated in 2020, however, as the mutual segment was able to pay back more to policyholders due to the favorable impact of the pandemic on the auto lines.

Exhibit 4
US P/C Mutuals – Incurred Loss Ratios by Line of Business

Line of Business	2020	2021	
Private Passenger Automobile (Liability)	55.9	64.5	↓
Homeowners Multiple Peril	71.2	67.4	↑
Private Passenger Auto (Physical Damage)	54.7	71.2	↓
Other Liability & Products Liability[1]	65.7	57.4	↑
Workers' Compensation	45.2	46.5	↓
Commercial Multiple Peril (Non-Liability)	71.6	67.7	↑
Fire & Allied Lines[2]	58.7	57.7	↑
Commercial Automobile (Liability)	66.8	63.2	↑
Commercial Multiple Peril (Liability)	46.0	45.0	↑
Inland Marine	54.3	56.1	↓
Commercial Automobile (Physical Damage)	53.4	60.1	↓
Farmowners Multiple Peril	66.9	62.4	↑
Medical Professional Liability	52.3	50.6	↑
Excess of Loss Reinsurance	34.2	119.7	↓
Fidelity & Surety	27.5	20.2	↑
Accident & Health	74.7	71.3	↑
Boiler & Machinery	68.4	43.6	↑
All Other Lines[3]	71.2	90.1	↓
Total	**59.8**	**64.5**	↓

[1] Includes excess liability, excess workers' compensation, directors & officers liability, environmental liability, professional liability, general liability, and employment practices liability.

[2] Includes earthquake, multiple peril crop, private crop, private flood, and federal flood.

[3] Includes mortgage guaranty, financial guaranty, ocean marine, aircraft, burglary & theft, credit, international, warranty, and aggregate write-ins.

Directional markers represent loss ratio changes greater than 5 percentage points in favorable or unfavorable directions.

Source: BESTLINK

Exhibit 5
US P/C Mutuals – Combined Ratio Components

	2017	2018	2019	2020	2021	5-Yr. Avg.
Net Premiums Written ($ millions)	252,420	263,218	269,920	273,838	285,656	269,010
Net Premiums Earned ($ millions)	248,268	259,067	265,761	269,558	278,529	264,237
Pure Loss Ratio	66.7	62.0	61.6	59.8	64.5	62.9
Loss Adjustment Expense (LAE) Ratio	11.2	10.8	10.8	10.6	10.3	10.7
Loss & LAE Ratio	77.9	72.8	72.4	70.4	74.8	73.7
Underwriting Expense Ratio	27.2	26.9	26.9	27.6	27.4	27.2
Policyholder Dividend Ratio	1.0	1.1	1.5	2.5	1.3	1.5
Combined Ratio	**106.1**	**100.8**	**100.8**	**100.5**	**103.5**	**102.3**

Source: BESTLINK

Exhibit 6
US P/C Mutuals – Combined Ratio Components, by Financial Size

	FSC I-VII (Up to $100 million)	FSC VIII-XIV ($100 million to $2 billion)	FSC XV (More than $2 billion)
Net Premiums Written ($ millions)	3,003	49,260	233,393
Net Premiums Earned ($ millions)	2,890	47,957	227,682
Pure Losses	1,506	27,992	150,085
Loss Adjustment Expenses	348	5,324	23,102
Underwriting Expenses	991	15,009	62,171
Dividends Paid	39	573	3,170
Pure Loss Ratio	52.1	58.4	65.9
Loss Adjustment Expense Ratio	12.0	11.1	10.2
Underwriting Expense Ratio	33.0	30.4	26.6
Combined Ratio, before Pol. Dividends (All)	**97.1**	**99.9**	**102.7**
Combined Ratio, before Pol. Dividends*	**96.2**	**98.3**	**102.7**
Policyholder Dividend Ratio*	6.5	2.3	1.5
Combined Ratio, after Pol. Dividends*	**102.7**	**100.6**	**104.2**

*Information shown for rating units paying policyholder dividends in 2021 only.
Source: BESTLINK

Weather-related challenges have not spared the mutual industry and have contributed to a decline in operating results. According to the National Oceanic Atmospheric Administration's (NOAA) National Centers for Environmental Information (NCEI), the US experienced 20 separate billion-dollar weather and climate disasters in 2021, the second-highest total for a calendar year after 2020. One of the largest events was Hurricane Ida, which made landfall in Louisiana and generated destructive tornadoes in the Northeast. The tornado season, which generally encompasses the spring months, extended well into the summer and autumn, while the usual spate of tropical storms and wildfires affected other parts of the US. Additionally, Winter Storm Uri caused extensive damage in Texas earlier in 2021.

Secondary perils have become a leading cause of the rise in losses, due to growth in the frequency and severity of wildfires, tornadoes, windstorms, and severe thunderstorms. Although these events are generally much smaller than named catastrophe events, they are often a part of the insurer's net retentions in reinsurance programs. As insurers retain these losses directly, these increasingly frequent storms can have a substantial impact on a company's profitability. Moreover, catastrophe models for secondary perils are still being refined. The unpredictability of these perils challenged the rated mutuals in 2021 and resulted in higher losses.

The larger mutual rating units tend to have the greatest impact on the segment's results, with the largest category (policyholders' surplus above $2 billion) accounting for 82% of all NPW in 2021 (**Exhibit 6**). These large companies generally reported higher incurred loss ratios than their medium-sized counterparts, which reported higher incurred loss ratios than did their smaller companies. Despite elevated loss ratios, the larger mutual carriers benefit from robust investment portfolios that enhance their operating ratios, an inherent competitive advantage over the smaller mutual companies. Smaller companies tend to pay back a greater share of earned premiums to their insureds in the form of policyholder dividends, but given the smaller economies of scale, they tend to have higher underwriting expenses. Although smaller organizations generally suffer from higher expense, LAE, and dividend ratios, they also tend to incur more favorable loss ratios, attributable to niche underwriting in single states or regions. Conversely, the underwriting expense ratio for companies in the higher Financial Strength Category (FSC) XV are nearly 7 points better than those in the smaller FSC categories. This demonstrated expense advantage and greater economies of scale is one of the factors contributing to the more favorable business profile assessments of these larger companies.

The exposure base and the level of coverage maintained in reinsurance programs depends on a company's size. Many rated mutuals have faced challenges in recent years when it comes to renewing these programs. Four of the past five years have seen above-average catastrophic activity, contributing to the rising cost of reinsurance—and catastrophe activity in 2020 was remarkably costly. The emergence of COVID-19, along with the heavy impact of secondary perils, further hardened the reinsurance market. Consequently, reinsurers have demanded price increases, especially in catastrophe-affected areas, as well as tighter terms and conditions. To mitigate the rise in costs, some insurers have increased net retentions, purchased smaller amounts of top coverage, or both. As a result, carriers are taking on more loss via retentions, which can manifest in higher probable maximum losses (PMLs) and, ultimately, higher loss ratios.

Exhibit 7

US P/C Mutuals – Change in Policyholders' Surplus

($ billions)

	2020	2021	
Beginning Policyholders' Surplus	354.0	383.8	↑
Net Income	16.6	13.7	↓
Unrealized Capital Gain/Loss	13.2	24.1	↑
Contributed Capital	2.1	0.4	↓
Other Capital Changes	-1.1	-0.8	↑
Ending Policyholder's Surplus	383.8	422.3	↑
Changes in PHS from Prior Year End	29.8	38.6	↑
Policyholders' Surplus Growth (%)	**8.4**	**10.0**	
After-Tax Total Return on Surplus (ROE) (%)	**8.1**	**9.4**	

Directional markers represent changes greater than $1 billion from previous year.

Source: BESTLINK

Surplus Growth Varies

Surplus growth is crucial for mutual companies, given their priority to reserve capital. Policyholders' surplus grew 10% in 2021, driven by about $13.7 billion in net income and nearly double the amount of unrealized capital gains from the prior year (**Exhibit** 7). The equity market rebounded powerfully in 2021, following the slump in 2020. These additional gains helped offset the 17% drop in net income in 2021.

Exhibit 8

US P/C Mutuals – Financial Indicators 1H2022

($ billions)

	1H2021	1H2022	YoY % Change
Net Premiums Written	139.5	150.7	8.0
Net Premiums Earned	135.4	144.9	7.0
Pure Losses Incurred	82.4	100.5	22.0
Loss Adjustment Expenses	13.5	14.6	8.3
Underwriting Expenses	38.4	40.7	6.2
Policyholder Dividends	1.7	1.3	-23.2
Underwriting Income/Losses*	-0.6	-12.3	NM
Net Investment Income	8.3	8.6	3.6
Other Income/Losses	-0.7	-0.6	-12.9
Net Realized Capital Gains/Losses	4.1	0.5	-87.0
Taxes Incurred	0.6	-0.7	NM
Net Income	**12.0**	**-2.2**	**-118.7**
Unrealized Capital Gain/Loss	**15.0**	**-30.5**	**NM**
Policyholders' Surplus	**401.9**	**381.3**	**-5.1**

Note: Figures may not add up due to rounding. All data shown inclusive only of rating units for which 1H2022 was received by Sep 9, 2022. NM = not meaningful.

*Includes aggregate write-ins for underwriting deductions and inclusive of policyholder dividends.

Source: BESTLINK

Furthermore, after-tax return on surplus (total return on equity, ROE) increased to 9.4% in 2021 from 8.1% in 2020. Because their short-term liquidity needs tend to be more muted, mutuals tend to take a long-term investment view and thus often have higher allocations to equities. This leaves them exposed to the potential impacts of equity market volatility, which can manifest in sizable peaks and valleys in the insurer's results. This was evident through the first half of 2022 as unrealized capital losses of $30.5 billion were reported versus $15 billion in gains for the prior period. **(Exhibit 8)**.

Like the broader market, mutual insurers continue to face market challenges. The mutual segment experienced a 22% increase in losses incurred through the first half of 2022 relative to the prior comparable period, which drove a $12.3 billion underwriting loss in the aggregate. Catastrophic activity continues to impact property writers and the recurrence of secondary perils is contributing higher loss amounts, which will likely further impact rising reinsurance costs. In addition, inflationary and supply chain as well as labor pressures are impacting auto insurers.

Although premiums have continued to grow throughout the first half of 2022, elevated loss activity has prompted a notable drop in net income. Coupled with the negating factors of the equity market decline, policyholders' surplus has dropped as well. Based on these results, 2022 is shaping up to be yet another challenging year for mutual insurers. It is expected that rate changes and pricing activity will remain a priority for mutual insurers and that new technologies and digital tools will continue to be utilized and implemented in business operations to help improve efficiency. However, given the uncertainty of these market challenges, AM Best revised the market segment outlooks for personal auto and the personal lines segment as a whole, from stable to negative.

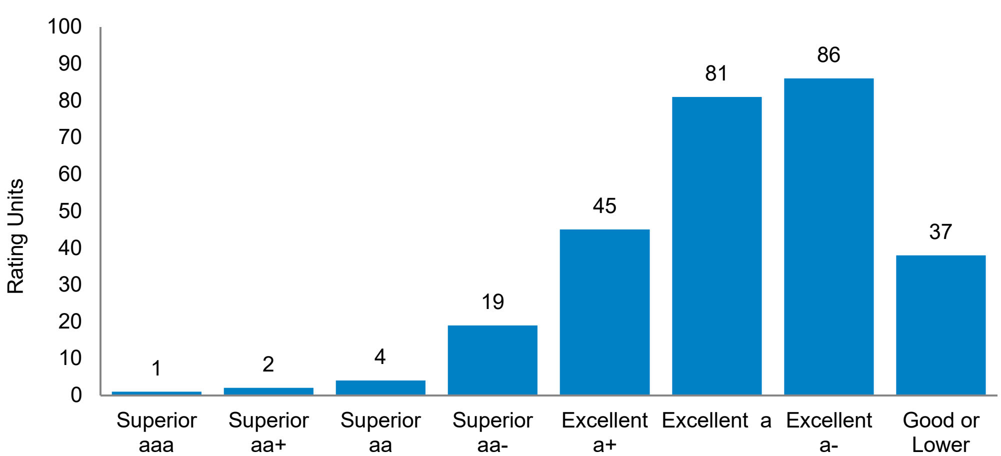
Ratings Implications

AM Best's analysis of rated mutuals generally indicates robust balance sheets, adequate operating performance, limited business profiles, and appropriate enterprise risk management. The assessment of rating units is in line with expectations based on the operating philosophy of most mutuals: to focus on the company's long-term financial position for the benefit of policyholders, not to seek maximized returns.

As of September 9, 2022, 86% of the rated mutuals had Excellent or higher issuer credit ratings: 9% were rated Superior and 77%, Excellent. The remaining were rated at the Good or lower levels (**Exhibit 9**). This distribution has been relatively stable the past five years. The outlook for 85% of the rating units is Stable. The median policyholders' surplus is $194.7 million, and the median five-year average combined ratio is 98.3, which indicates the overall health and stability of segment balance sheets. The remainder of mutual rating units have either a Positive (6%) or Negative outlook (9%). The percentage of Positive and Negative outlooks has varied slightly over the years, but in recent years Negative outlooks tend to consistently outpace Positive outlooks.

Exhibit 9

US P/C Mutuals – Long-Term Issuer Credit Rating Distribution



Source: AM Best data and research

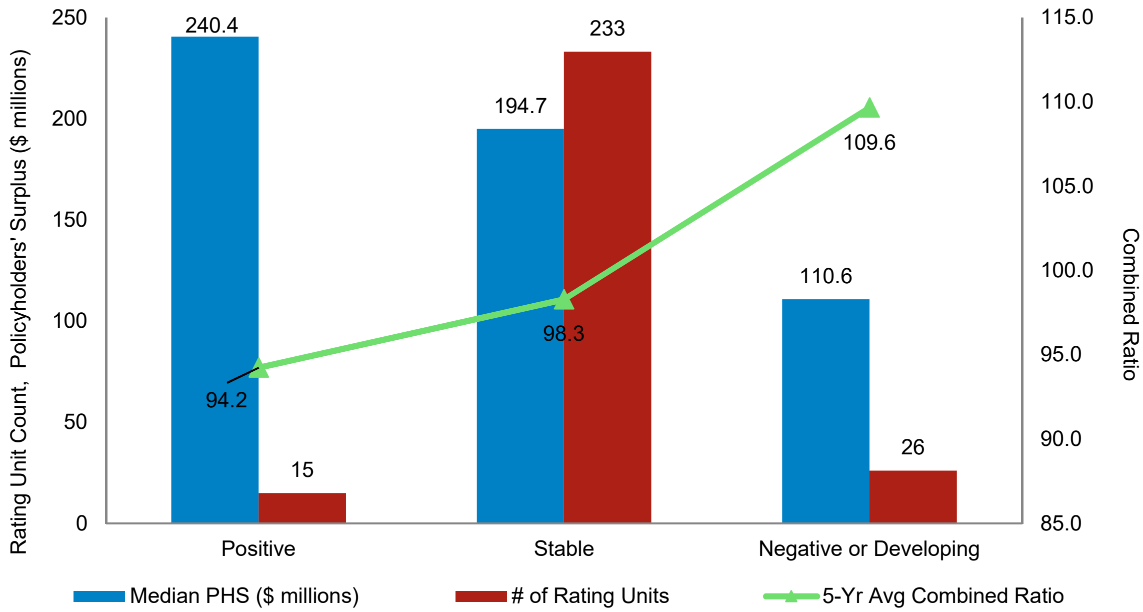
Regardless of the outlook, five-year average combined ratios have increased since 2020; for rating units with either Stable and Positive outlooks, the ratio rose by approximately one point. For rating units with a Negative outlook, however, the average combined ratio increased by nearly 5 points, suggesting that these companies have had additional difficulties maintaining underwriting profitability (**Exhibit 10**).

Balance Sheet Strength

The balance sheets of just over 90% of the rated mutuals are assessed at either Strongest (38%) or Very Strong (52%) (**Exhibit 11**), a distribution that has remained relatively stable for the past five years.

Exhibit 10

US P/C Mutuals – Long-Term Issuer Credit Rating Outlooks

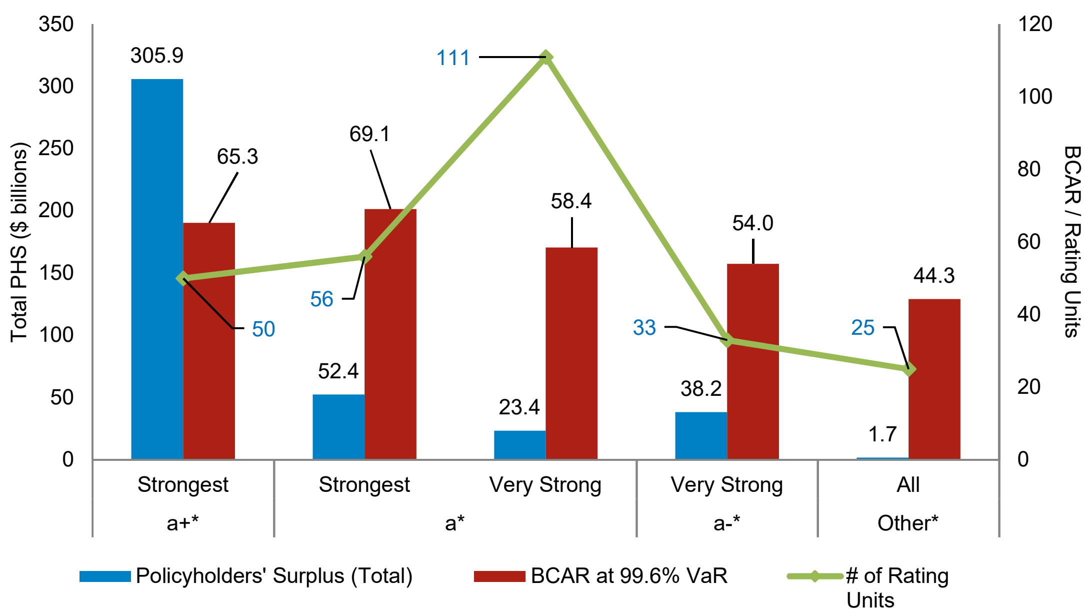


As of Sept. 9, 2022
One rating unit was excluded from the above exhibit. That rating unit is currently "Under Review" with negative implications.

Source: BESTLINK

Exhibit 11

US P/C Mutuals – Balance Sheet Strength (BSS) Distribution and Characteristics



As of Sept 9, 2022
*Reflects the baseline (starting) ICR assessment, which may differ from the final Long-Term ICR.
Source: AM Best data and research

No rated mutual has been assessed as having Weak or Very Weak balance sheets. Key characteristics of the companies with high balance sheet assessments include healthy risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR); stable BCAR scores and reserving trends; and appropriate and diverse reinsurance programs. Our balance sheet strength assessments factor quantitative and qualitative components, including the BCAR, stress tests, liquidity, quality of both capital and investments, quality and appropriateness of reinsurance, and strength of reserves.

There are interesting differences between the balance sheet strength assessment descriptors and the baseline Issuer Credit Ratings (ICRs). Although rating units assessed as Strongest have the highest BCAR scores, those that begin at an "a+" starting point have substantially higher policyholder surplus levels than those that start with "a." There is a 10+ point difference in the average BCAR scores of rating units that start with an "a" ICR, as those assessed as Strongest have a modestly higher level of risk-adjusted capitalization than those assessed as Very Strong**.**

A company's risk-adjusted capitalization is pivotal in determining a baseline ICR, although it is not the sole tool used to evaluate balance sheet strength. As expected, BCAR scores are higher across all confidence levels for the stronger balance sheets, which is also reflected in the baseline ICR associated with the assessment (**Exhibit 12**).

Operating Performance

Operating performance is the leading indicator of future balance sheet strength and long-term financial stability. The analysis of operating performance focuses on the stability, diversity, and sustainability of earnings, and the interplay between earnings and liabilities. The operating performance of approximately 57% of mutual rating units is assessed as Adequate, and that of nearly 30% is assessed as either Strong or Very Strong (**Exhibit 13**). Nearly 13% are assessed as Marginal, a slight decline from 2017 when over 17% of rating units had this assessment, indicating some progress among the rated mutual insurers.

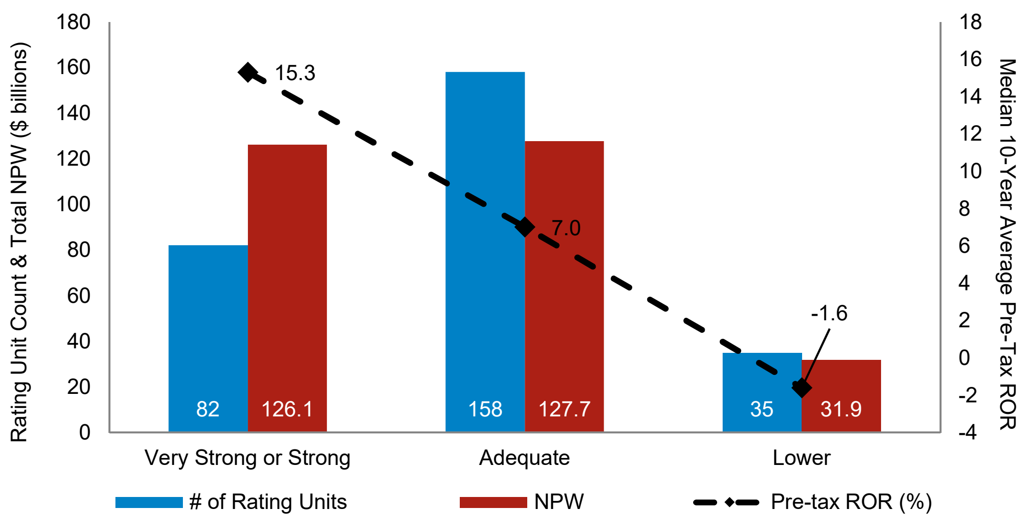
Exhibit 12
US P/C Mutuals – Quartile Benchmarks of BCAR Scores

	99.6% VaR BCAR Score (%)		
Balance Sheet Strength Assessment	**25th**	**Median**	**75th**
Strongest	60.5	68.1	74.3
Very Strong ("a" baseline)	47.8	58.7	69.1
Very Strong ("a-" baseline)	41.9	54.9	66.0
Strong or Lower	30.0	48.5	58.6

Data reflects the most recent BCAR score for each company based on their prior year rating effective date.

Source: AM Best data and research

Exhibit 13
US P/C Mutuals – Operating Performance and Distribution of NPW by Operating Performance Assessment



As of August 19, 2022.
"'Lower" includes marginal, weak, and very weak assessments. Pre-tax ROR is median of 10-year average.
Source: BESTLINK

Exhibits 13 and 14 depict the relationships between operating performance assessments and various key metrics. The relationship between assessment levels and pre-tax return on revenue, operating ratio, combined ratio, and the standard deviation (volatility) of those results can be seen visually in the data. Most of the premium growth by mutual insurers has been driven by those assessed as Adequate, with their NPW growing nearly 13% in 2021.

As **Exhibit 14** shows, the median five-year average combined ratio for mutuals with an Adequate assessment is 99.4. For mutual companies with a long-term focus in particular, a combined ratio near break-even is consistent with what AM Best views as adequate underwriting metrics. Combined and operating ratios themselves tend to be a prominent driver of performance assessments.

A notable strength is visible in the combined ratio standard deviation relative to the other metrics for the Very Strong and Strong assessments. Although most mutuals experience volatility in one form or another and will perform better or worse than the averages, the higher the assessment for operating performance, the lower the tolerance for volatility.

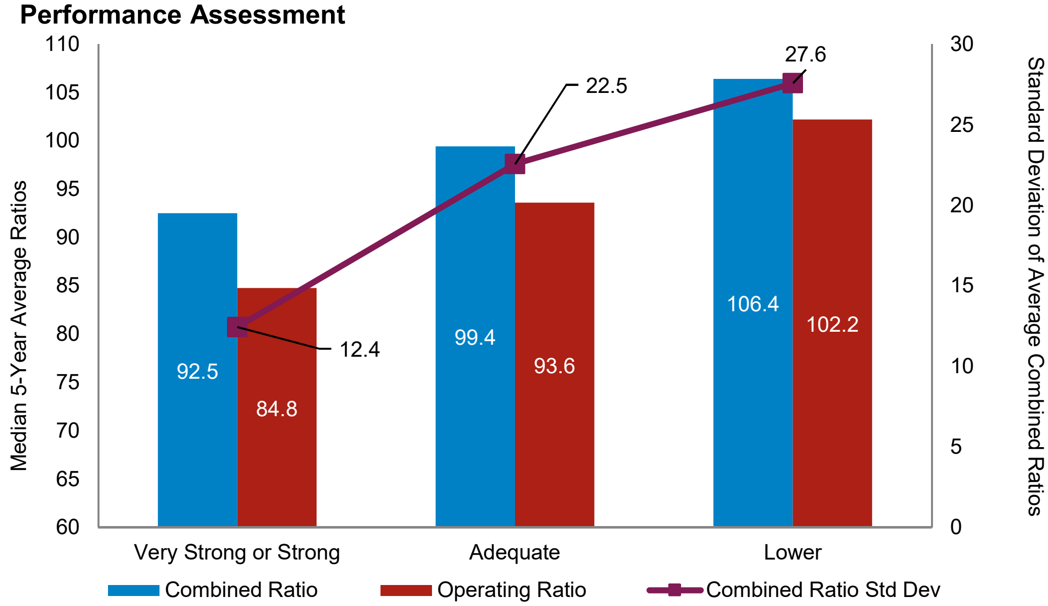
Business Profile

A solid business profile drives favorable and sustainable operating performance, which can be influenced by the mix of a rating unit's business, as well as geographic and business line diversification. A large portion of the rated mutuals are geographically concentrated, as over 65% of rating units have concentrations of over 50% in their largest state, and 47% of rating units have concentrated product lines (**Exhibit 15**). Concentration could lead to competitive advantages but can also pose greater potential risks owing to extreme weather-related events, as well as regulatory or competitive market issues.

The business profiles of nearly 52% of mutual rating units are assessed as Limited or lower. Key characteristics of a company with a Limited business profile assessment include geographic or product line concentration, potentially limited control of distribution, and high competition in

Exhibit 14

US P/C Mutuals – Underwriting & Operating Ratio and Variability by Operating Performance Assessment



Source: BESTLINK

target markets with low barriers to entry. The remaining mutual rating units (nearly 40%) are assessed as having a Neutral business profile, which predominantly includes companies with greater diversification in product offerings and operating territories, a firm market position, and the proven ability to manage that concentration of business effectively. Mutuals with a Neutral business profile also have a larger premium base, close to four times higher than the Limited group (**Exhibit 16**).

The remaining rated mutuals—just over 8%—are assessed as having either a Favorable or Very Favorable business profile. The premium bases of these rating units are considerably higher than those of their Neutral or Limited counterparts. Insurers with these assessments are strong market leaders with high brand recognition in their operating territories, control over distribution channels, and diversified from both a geographic and product perspective. These companies also have strong management teams that are able to use data and innovation effectively to maintain a competitive advantage.

To remain competitive and limit concentration issues, mutuals maintain comprehensive reinsurance structures designed to mitigate catastrophic weather events through smaller retentions, quota shares, and unique coverages. In some cases, these coverages benefit risk-adjusted capitalization and therefore the assessment of balance sheet strength, which helps offset the Limited profile assessments in the rating process. But due to obstacles in the reinsurance market, some companies may find replicating the same structures as in the past more difficult. Effectively responding to an ever-changing market is essential to managing a company's risk exposures and mitigating potentially large loss events.

Innovation

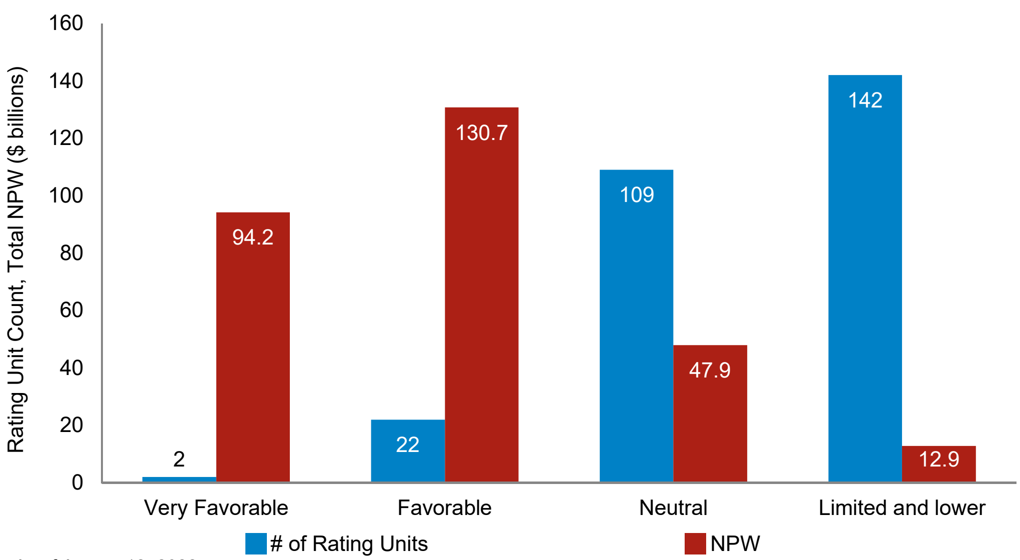
AM Best research shows that mutual insurers understand that more effective use of technological advancements can address key operational challenges, including system/process inefficiencies, underwriting risk, and business model disruptions. Mutual companies understand that outdated information systems and unproductive

Exhibit 15
US P/C Mutuals – Concentration Indicators

	# of Rating Units	NPW ($ billions)
Largest State ≥50%	182	39.0
Largest State <50%	93	246.7
Largest LOB ≥50%	131	17.8
Largest LOB <50%	144	267.9

Totals may not add up due to rounding.
Source: AM Best data and research

Exhibit 16
US P/C Mutuals – Premiums Written by Business Profile Assessment



As of August 12, 2022
Source: BESTLINK

processes can negatively affect their operations. Advancements related to artificial intelligence, automation, and telematics, especially on the personal auto side, could help lower loss costs driven by human error.

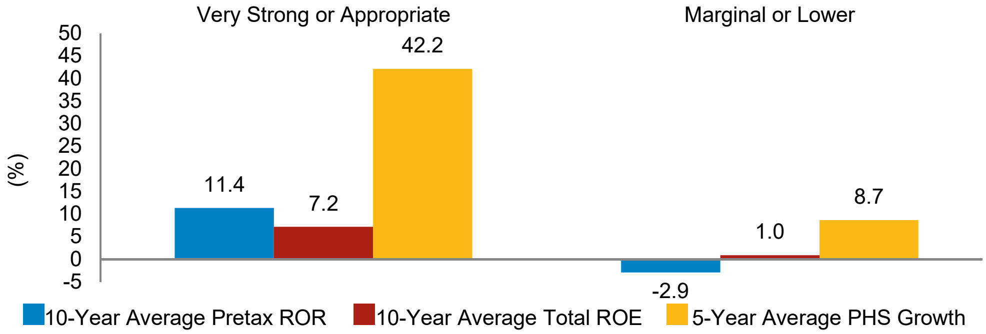
Many view preserving policyholder value as the primary reason for innovation. Technological initiatives that provide convenience and ease of use for customers but also benefit insurers by lowering costs with automated customer-facing interactions are key long-term investments for mutual insurers.

Enterprise Risk Management (ERM)

Enterprise risk management is the thread that links balance sheet strength, operating performance, and business profiles. Over 96% of the rated mutuals were assessed as having an Appropriate or Very Strong ERM framework in place. The high proportion of rating units assessed at this level is driven by the fact that many of the rated mutuals operate in the highly regulated US personal lines segment, under a framework that requires fundamentally solid risk management capabilities. In addition, many of these companies tend to have low to moderate risk profiles and routinely stress test for modeled catastrophe events if they are exposed to weather-related events.

In contrast, long-term average return measures such as pre-tax return on revenue, after-tax return on surplus, and average growth in policyholders' surplus for rating units whose ERM is assessed as Marginal or lower are unfavorable (**Exhibit 17**).

Exhibit 17
US P/C Mutuals – Operating Return Characteristics by ERM Assessment



As of August 12, 2022.
Source: BESTLINK

Mutuals Relative to the Industry

Given their relatively limited financial flexibility, raising additional capital/surplus can be challenging for mutual companies. Additionally, mutual insurers are not immune to the difficulties insurers face in the P/C industry as a whole and must learn to navigate with the key goal of serving policyholders. Still, over the past ten years, the rated mutuals (**Exhibit 18**) have held a fair portion of the P/C industry's market share, demonstrating their strong market presence and an ability to effectively react to changing market dynamics. Market share has gone down just very slightly since 2011, but the rated mutuals remain dominant players in the overall industry.

Exhibit 18
US P/C Mutuals – Market Share of P/C Industry by DPW, 2011 vs 2021
(%)

	2011	2021
Total Rated Mutuals	42.2	38.7
Top 25 Rated Mutuals	34.9	31.9

Source: BESTLINK

Published by AM Best

BEST'S MARKET SEGMENT REPORT

A.M. Best Company, Inc.
Oldwick, NJ
CHAIRMAN, PRESIDENT & CEO **Arthur Snyder III**
SENIOR VICE PRESIDENTS **Alessandra L. Czarnecki, Thomas J. Plummer**
GROUP VICE PRESIDENT **Lee McDonald**

A.M. Best Rating Services, Inc.
Oldwick, NJ
PRESIDENT & CEO **Matthew C. Mosher**
EXECUTIVE VICE PRESIDENT & COO **James Gillard**
EXECUTIVE VICE PRESIDENT & CSO **Andrea Keenan**
SENIOR MANAGING DIRECTORS **Edward H. Easop, Stefan W. Holzberger, James F. Snee**

AMERICAS
WORLD HEADQUARTERS
A.M. Best Company, Inc.
A.M. Best Rating Services, Inc.
1 Ambest Road, Oldwick, NJ 08858
Phone: +1 908 439 2200

MEXICO CITY
A.M. Best América Latina, S.A. de C.V.
Av. Paseo de la Reforma 412, Piso 23,
Col. Juárez, Alcadía Cuauhtémoc, C.P. 06600, México, D.F.
Phone: +52 55 1102 2720

EUROPE, MIDDLE EAST & AFRICA (EMEA)
LONDON
A.M. Best Europe - Information Services Ltd.
A.M. Best Europe - Rating Services Ltd.
12 Arthur Street, 8th Floor, London, UK EC4R 9AB
Phone: +44 20 7626 6264

AMSTERDAM
A.M. Best (EU) Rating Services B.V.
NoMA House, Gustav Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands
Phone: +31 20 308 5420

DUBAI*
A.M. Best - MENA, South & Central Asia*
Office 102, Tower 2, Currency House, DIFC
P.O. Box 506617, Dubai, UAE
Phone: +971 4375 2780
*Regulated by the DFSA as a Representative Office

ASIA-PACIFIC
HONG KONG
A.M. Best Asia-Pacific Ltd
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Phone: +852 2827 3400

SINGAPORE
A.M. Best Asia-Pacific (Singapore) Pte. Ltd
6 Battery Road, #39-04, Singapore
Phone: +65 6303 5000

Best's Financial Strength Rating (FSR): an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts.

Best's Issuer Credit Rating (ICR): an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

Best's Issue Credit Rating (IR): an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

Rating Disclosure: Use and Limitations
A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile, and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.

AM BEST SINCE 1899 ®

Version 010320