September 14, 2023

Secondary Perils, Inflation Underlie Volatile Operating Results for Mutuals

P/C mutual insurers' profitability struggled in 2022, despite considerable premium growth

Principal Takeaways

- The impact of secondary perils and continued inflationary pressures has resulted in the mutual segment incurring $31.0 billion in underwriting losses in 2022, with an $11.2 billion net loss.
- In 2022, the mutual segment reported a combined ratio of 109.9 (after policyholder dividends), which was more than six points higher than for the prior year and the five-year average.
- Both net premiums written and earned rose in 2022, with premiums likely to continue growing, largely driven by rate but partially offset by rising reinsurance costs.

Mutual organizations, including reciprocal exchanges and insurance cooperatives, operate with the goal of serving their policyholders, focusing on long-term financial strength and preservation of capital. These companies must react swiftly to avoid falling behind the market. Many factors affected the industry in 2022, including rampant inflation, ongoing supply chain shortages, reinsurance capacity constraints, rising expenditures, above-average weather-related loss activity, and volatility in the investment markets.

The impact of these market pressures emerged quickly, requiring strategy adjustments. Underwriting and profitability challenges were exacerbated by an unstable investment market. Amid all these negative factors, the mutuals were resilient. Many insurers shifted their focus from growth to profitability by implementing aggressive rate changes, ensuring adequate insurance to value, and refining risk selections through tighter underwriting guidelines.

Premiums Rise, Operating Metrics Decline

Net premiums written by the rated mutuals grew by 9% in 2022 (**Exhibit 1**), more than in any year in recent history, benefiting from insurers' greater focus on rate adequacy. With pure losses incurred up 20% from the prior year, pricing was a top priority for mutuals, which generally rely on sound operating earnings to build capital. Net premiums earned grew by 8.1%, as insurers began raising rates in late 2021 in response to inflationary and supply chain issues, as well as rising reinsurance costs, which began to emerge. Given ongoing rate actions to address economic inflation, premiums are likely to continue rising. However, this will be offset by the cost of reinsurance, which is anticipated to remain elevated over the near term.

Mutual insurers felt the effects of inflation, particularly on the personal automobile and property lines, starting in the second half of 2021. Throughout 2022, claims costs continued to rise, with inflation reaching multi-decade highs. Many insurers made adjustments to inflation guard factors, but the rapid onset of these trends made it difficult for rated mutuals to avoid the effects. Consequently, in 2022, the mutual segment incurred underwriting losses of approximately $31.0 billion, which precipitated an $11.2 billion net loss.

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Rating Units

The property/casualty insurance companies discussed in this report are mutuals, insurance cooperatives, and reciprocal exchanges (which include risk retention groups and state funds), collectively referred to as mutuals, comprising 272 US-domiciled rating units as of December 31, 2022. A rating unit—either an individual insurer or a consolidation of companies—forms the basis for AM Best's rating evaluations. In general, the financial results of rating units represent the way insurance groups operate and manage their business. **Exhibits 1 to 10** are based on annual statutory data 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 M&A.

Loss adjustment expenses were up by 8% in 2022, as some companies struggled with social inflation. Expenses are rising—particularly for the casualty lines, which are longer-tailed in nature—owing to claimants expecting higher settlements, often resulting in prolonged negotiations and failure to settle cases quickly. Litigation funding has an impact as well. These conditions are likely to affect future claims, as well as outstanding claims that are open for longer periods of time, thus increasing the associated costs.

Exhibit 1
US P/C Mutuals – Financial Indicators
($ billions)

	2021	2022	Change (%)
Net Premiums Written	285.7	311.5	9.0
Net Premiums Earned	278.5	301.0	8.1
Pure Losses Incurred	179.7	215.7	20.0
Loss Adjustment Expenses	28.8	31.1	8.0
Losses & LAE	208.5	246.8	18.4
Underwriting Expenses	78.4	82.6	5.4
Policyholder Dividends	3.8	2.6	-32.0
Underwriting Income/Losses	-12.1	-31.0	NM
Net Investment Income	18.4	18.6	1.0
Other Income/Losses	0.9	0.3	NM
Pre-Tax Operating Income	7.2	-12.2	NM
Net Realized Capital Gains/Losses	7.2	-0.7	NM
Federal income Taxes	0.7	-1.7	NM
Net Income	**13.7**	**-11.2**	**NM**

Figures may not add up due to rounding.

Social inflation is relatively difficult to measure and predict. Many mutual companies concentrated in casualty lines have strengthened their current loss and loss adjustment expense (LAE) reserves to better prepare them to withstand these effects of social inflation. Claims handling is also being enhanced by technology and partnerships with external vendors that can provide services related to telematics, drones, aerial imagery, and more.

Net premiums written growth for P/C mutuals reached nearly $26 billion in 2022. Notably, private passenger auto physical damage rose by 10.2% and auto liability, by 5.7% (**Exhibit 2**), with these two lines reporting the two highest loss ratios (**Exhibit 3**). Used car prices soared, along with the cost of vehicle parts, labor, and medical treatments, resulting in costlier claims. The commercial auto lines were impacted by these conditions as well, supported by double digit increases in incurred loss ratios. Trailing was the homeowners line, which reported 10.1% premium growth and a loss ratio approximately two points higher than in the prior year, also due to the effects of inflation as evidenced by an increase in property exposures and a rise in building materials and labor costs. AM Best expects these trends, which underlie our Negative outlook for the personal lines market segment, to continue over the near term.

Although inflation appears to be slowing down, it remains elevated, contributing to higher claims. Insurers that haven't adjusted pricing remain at risk for severe volatility, along with potential reserving issues, given the possibility of inadequately reserved claims and the prolonged life of each claim owing to repair delays.

Nevertheless, concentrations among top mutual insurers are largely in line with the prior year, with the ten largest rated mutual insurers accounting for 72% of NPW in 2022, and the top 25 accounting for 83% (**Exhibit 4**). State Farm remains in the top spot, accounting for a quarter of the market, followed by Liberty Mutual, which holds approximately half that. The top ten spots did not change from 2021, but there was some movement among the other players. Westfield Group and Alfa Insurance Group both moved up two spots from the prior year, and Utica National Insurance Group reached the #25 position. Solid premium increases in 2022 were driven largely by rates as opposed to new business growth, as companies attempt to mitigate volatility.

Heavy Catastrophe Losses and Hardening Reinsurance Market

P/C mutuals reported a combined ratio of 109.9 in 2022, more than six points higher than that of the prior year and the five-year average (**Exhibit 5**). Rising inflation was one of the factors, leading to a significant increase in the loss ratio although the LAE ratio was essentially in line with historical levels. On the positive side, the underwriting expense ratio declined slightly from the prior year due to higher premium levels.

Exhibit 2

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

Line of Business	2021 NPW ($ millions)	2022 NPW ($ millions)	Change (%)
Private Passenger Automobile (Liability)	70,628	74,630	5.7
Homeowners Multiple Peril	66,669	73,419	10.1
Private Passenger Auto (Physical Damage)	52,333	57,663	10.2
Workers' Compensation	12,566	13,726	9.2
Other Liability & Products Liability[1]	15,701	17,385	10.7
Commercial Multiple Peril (Non-Liability)	12,462	13,299	6.7
Fire & Allied Lines[2]	12,359	13,681	10.7
Commercial Automobile (Liability)	10,783	12,164	12.8
Commercial Multiple Peril (Liability)	7,036	8,213	16.7
Inland Marine	5,743	6,298	9.7
Farmowners Multiple Peril	3,979	4,210	5.8
Commercial Automobile (Physical Damage)	4,101	4,271	4.1
Medical Professional Liability	3,230	3,382	4.7
Excess of Loss Reinsurance	3,034	3,578	17.9
Fidelity & Surety	1,727	2,065	19.5
Accident & Health	1,447	1,460	0.9
Boiler & Machinery	1,304	1,340	2.7
All Other Lines[3]	551	662	20.1
Total	**285,654**	**311,444**	**9.0**

[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.

Source: AM Best data and research

Exhibit 3

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

Line of Business	2021	2022	Change (%)
Private Passenger Automobile (Liability)	64.5	81.4	16.9
Homeowners Multiple Peril	67.4	69.5	2.1
Private Passenger Auto (Physical Damage)	71.2	85.0	13.8
Workers' Compensation	46.5	47.5	1.1
Other Liability & Products Liability[1]	57.4	57.9	0.5
Commercial Multiple Peril (Non-Liability)	67.8	67.2	-0.5
Fire & Allied Lines[2]	57.7	60.8	3.0
Commercial Automobile (Liability)	63.2	74.7	11.5
Commercial Multiple Peril (Liability)	45.0	62.6	17.6
Inland Marine	56.1	60.6	4.5
Farmowners Multiple Peril	62.4	76.8	14.4
Commercial Automobile (Physical Damage)	60.1	74.9	14.8
Medical Professional Liability	50.3	47.9	-2.4
Excess of Loss Reinsurance	119.0	62.5	-56.5
Fidelity & Surety	20.2	10.8	-9.4
Accident & Health	71.3	74.8	3.5
Boiler & Machinery	43.6	34.4	-9.3
All Other Lines[3]	90.1	55.5	-34.6
Total	**64.5**	**72.3**	**7.9**

[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.
Source: AM Best data and research

According to the National Oceanic and Atmospheric Administration (NOAA), the US experienced 18 weather- and climate-related disasters in 2022, each of which incurred economic losses exceeding $1 billion, contributing to total disaster costs exceeding $165 billion, making 2022 the third-costliest year on record. These events included derechos in the Midwest, Hurricane Ian, floods in Kentucky and Tennessee, western wildfires, and a large winter storm/freeze event in the central and eastern US in late December. Hurricane Ian is the third-most costly US hurricane on record, trailing only Hurricanes Katrina and Harvey. Drought conditions in the central and western US further contributed to the losses. Catastrophic loss activity has not slowed down in 2023, with numerous severe storms in the central and southern parts of the country, along with intense flooding in California and large hailstorms in Texas. In late August, Hurricane Idalia caused extensive damage in the southeastern US after making landfall as a Category 3 storm in Florida.

Exhibit 4

US P/C Mutuals – Top 25 Companies, 2022

Ranked by NPW

AMB#	Group/Company Name	NPW ($ millions)	Market Share (%)
00088	State Farm Grp.	77,761	25.0
00060	Liberty Mutual Insurance Cos.	38,684	12.4
04080	USAA Grp.	26,189	8.4
05987	Nationwide Grp.	19,448	6.2
00032	Farmers Insurance Grp.	17,498	5.6
00124	American Family Insurance Grp.	14,099	4.5
04354	Auto-Owners Insurance Grp.	10,703	3.4
04283	Erie Insurance Grp.	8,729	2.8
18502	FM Global Grp.	5,309	1.7
18515	Auto Club Enterprises Insurance Grp.	4,980	1.6
18460	CSAA Insurance Grp.	4,837	1.6
00086	Sentry Insurance Grp.	3,221	1.0
00312	Auto Club Grp.	2,745	0.9
00302	COUNTRY Fin'l. Property Casualty Grp	2,716	0.9
18522	Amica Mutual Grp.	2,324	0.7
00598	Shelter Insurance Cos.	2,253	0.7
00730	Westfield Grp.	2,240	0.7
04284	Federated Mutual Grp.	2,148	0.7
00346	EMC Insurance Cos.	2,122	0.7
00468	Acuity, A Mutual Insurance Co.	2,102	0.7
00964	West Bend Mutual Insurance Co.	1,730	0.6
00106	Alfa Insurance Grp.	1,687	0.5
04233	Farm Bureau Property & Casualty Grp.	1,642	0.5
18154	Tennessee Farmers Insurance Cos.	1,610	0.5
04202	Utica National Insurance Grp.	1,453	0.5
	Top 25 Mutuals	**258,231**	**82.9**
	Total – P/C Mutuals	**311,517**	**100.0**

Source: AM Best data and research

Secondary perils continue to increase in both frequency and severity, though modeling techniques for these storms have not yet been fully developed (in contrast large catastrophe events), which makes them more challenging to predict and assess. Event tails also appear to be lengthening in some instances, with storms lasting longer and causing more damage than in the past.

Exhibit 5

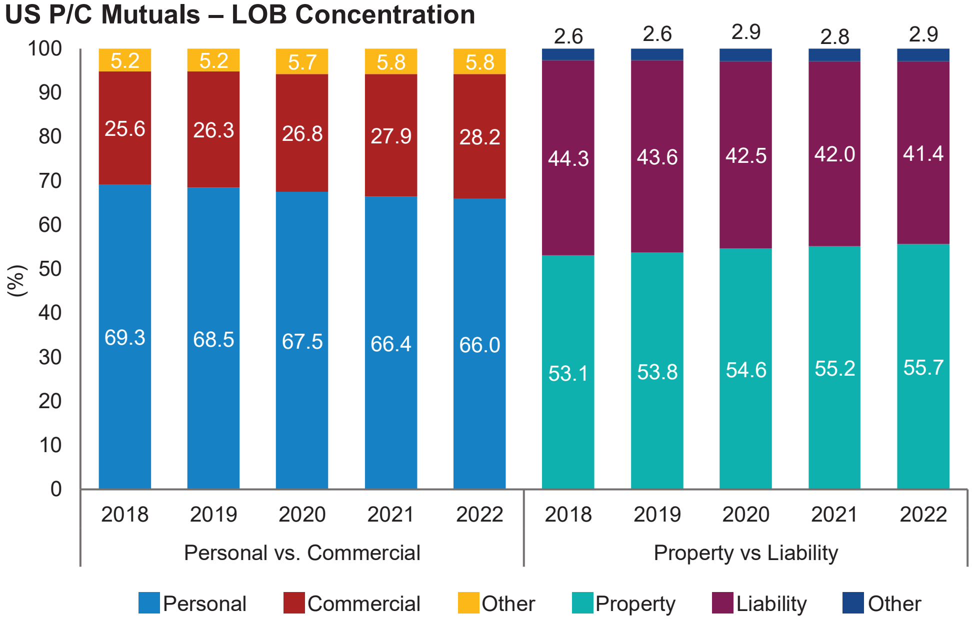
US P/C Mutuals – Combined Ratio Components

	2018	2019	2020	2021	2022	5-Yr. Avg.
Net Premiums Written ($ millions)	263,214	269,949	273,828	285,654	311,444	280,818
Net Premiums Earned ($ millions)	259,068	265,782	269,553	278,520	299,687	274,522
Pure Loss Ratio	62.0	61.6	59.8	64.5	72.3	64.0
Loss Adjustment Expense Ratio	10.8	10.8	10.6	10.3	10.4	10.6
Loss & LAE Ratio	72.8	72.4	70.4	74.8	82.7	74.6
Underwriting Expense Ratio	26.9	26.9	27.6	27.4	26.3	27.0
Policyholder Dividend Ratio	1.1	1.5	2.5	1.4	0.9	1.5
Combined Ratio	**100.8**	**100.8**	**100.5**	**103.5**	**109.9**	**103.1**

Source: AM Best data and research

To diversify their exposures, some mutual insurers are shifting towards commercial lines to reap that segment's benefits, as **Exhibit 6** shows. Over the past five years, the rated mutuals have lowered their exposures to the personal lines by over three percentage points. Though still exposed to severe weather, the commercial lines side tends not to fluctuate as much as personal lines would in the event of a large catastrophe. Nevertheless, a majority of the rated mutuals' premium concentration remains in the property lines, around 56%, up slightly from 2018.

Exhibit 6
US P/C Mutuals – LOB Concentration



Source: AM Best data and research

Capacity became constrained and costs for reinsurance soared during the 2022 renewals, which persisted for many companies during the 2023 program renewals. Most of the rated mutuals found it challenging to renew the same program as the prior year, leading to one of the toughest reinsurance renewal periods in decades. Reinsurance market conditions have varied depending on the region and the level of catastrophic activity over the past few years, but terms and conditions have tightened, while retention levels and premiums have significantly increased for most mutuals. Double-digit price increases were typical in this year's renewals, with a number of insurers seeing rate hikes of over 40%. In response, some companies decided to use their own capital to increase catastrophe retentions or co-participate on some of the upper layers. Mutual companies are relying more and more on their own capital to protect them in the event of a large loss—a departure from the past, given the limited avenues available to mutuals to access capital.

Capacity in some states has become more limited than elsewhere, prompting some regulators to step in to address these issues. In Louisiana, for example, insurer insolvencies and extremely limited capacity prompted regulators to fund the "Insure Louisiana Incentive Fund," with the goal of attracting more insurance companies to write business and reduce the number of policies being written by Louisiana Citizens Property Insurance Corporation, which has seen significant premium growth over recent years. In Florida, the Reinsurance to Assist Policyholders (RAP) program was introduced with a similar goal in mind.

As the need for mutuals to take additional rate continues to grow, some insurers are finding it difficult to obtain and implement these changes due to restrictive regulatory environments, particularly in states such as California and New York. As the magnitude of rate increases sought continues to grow, this is expected to become increasingly difficult.

Size and Scope of Operations Drive Varied Results

Mutual insurers vary in financial size and scope. Larger mutual rating units, particularly those with policyholders' surplus above $2 billion, comprise a majority of the segment's results as they accounted for over 81% of all net premiums written in 2022 (**Exhibit 7**). Generally, these rating units tend to report higher loss ratios offset by lower expenses, as their larger size and scope of operations allow them to better leverage resources. These companies also tend to generate lower operating ratios owing to their prudent investment portfolios, which usually provide a buffer for underwriting results.

Exhibit 7
US P/C Mutuals – 2022 Combined Ratio Components, by Financial Size Category (FSC)

	FSC I-VII	FSC VIII-XIV	FSC XV
Net Premiums Written ($ millions)	3,059	55,495	252,890
Net Premiums Earned ($ millions)	3,005	53,107	243,575
Pure Loss Ratio	59.1	64.6	74.2
Loss Adjustment Expense Ratio	11.6	11.0	10.2
Underwriting Expense Ratio	34.0	29.7	25.5
Policyholder Dividend Ratio*	1.2	0.9	0.8
Combined Ratio before Policyholder Dividends	**105.9**	**106.2**	**110.7**

FSC Groups	Policyholders' Surplus
I – VII	Up to $100 million
VIII – XIV	$100 million to $2 billion
XV	More than $2 billion

* Shown only for companies that made dividend payments in 2022, divided by their net premiums earned.
Source: AM Best data and research

In contrast, smaller companies are more likely to write in a specialized, or niche market, with more favorable loss experience countered by higher expenses owing to the small scope of operations. These companies may also be exposed to more volatility, due particularly to weather-related events, if exposures are concentrated in a specific region or state. Medium-sized mutuals with policyholders' surplus ranging from $100 million to $2 billion, may have attributes of both small and larger companies, yielding results that are somewhere in the middle.

Exhibit 8
US P/C Mutuals – Change in Policyholders' Surplus, 2021 vs 2022
($ billions)

	2021	2022
Beginning Policyholders' Surplus	384.0	422.6
Net Income	13.7	-11.2
Unrealized Capital Gain/Loss	24.1	-27.6
Contributed Capital	0.4	2.0
Other Capital Changes	0.9	5.4
Stockholder Dividends	-0.6	-1.5
Ending Policyholder's Surplus	422.6	389.7
Changes in PHS from Prior Year End	38.6	-32.9
Policyholders' Surplus Growth (%)	10.0	-7.8
After-Tax Return on Surplus (%)	**9.4**	**-9.6**

Source: AM Best data and research

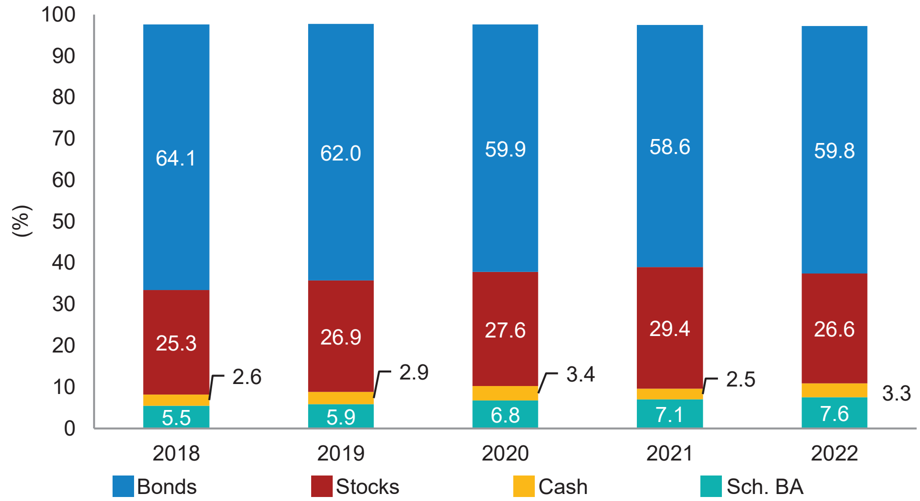
Regardless of size, many rated mutuals recognize the role that technology plays, which has become increasingly critical to a company's success and long-term financial strength. Effective use of these tools can help address key operational challenges, including system/process inefficiencies, underwriting risk, and business model disruptions. Companies with a larger scope can partner with external vendors and further implement telematics, robotic process automation, and digitization/AI into claims handling, underwriting, and loss control efforts. Mutuals with a smaller scope and more limited resources may focus their efforts on updating policy administration systems, which can still provide a range of benefits, including new and more accurate pricing models and the ability to support additional lines of business, versus legacy systems. As the world continues to shift more towards a digital environment, 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.

Investment Volatility Impacts Policyholders' Surplus

Policyholders' surplus growth is imperative for mutual insurers, given their limited avenues to access capital. However, for the first time in the last ten years, mutuals' surplus declined by 7.8% in 2022 owing to volatile insurance and investment market conditions (**Exhibit 8**). Volatility on the underwriting side was joined by a decline in the equity markets, making it far more difficult for insurers to grow their surplus. In prior years, underwriting losses may have been supplemented with solid capital returns flowing through the company's balance sheets, but in 2022, mutuals reported significant unrealized capital losses—of $27.6 billion—for the first time in five years, which

Exhibit 9

US P/C Mutuals – Investment Portfolio Allocations over Time



Source: AM Best data and research

contributed to the decline in surplus. The rated mutuals' investments are concentrated in fixed-income securities, but their stock holdings have been growing the past five years (**Exhibit 9**). The stock concentrations decreased through 2022, however, likely driven by market devaluation along with companies potentially de-risking their portfolios given the uncertainty.

Additionally, aggressive interest rate increases adversely affected the market value of bond holdings. The bond market, which has historically been a shock absorber when stocks declined, performed poorly, as bond prices fell due to the interest rate increases. However, both the equity and bond markets have rebounded so far in 2023 and are delivering more favorable returns.

Exhibit 10

US P/C Mutuals – Financial Indicators 1H2023 vs. 1H2022

($ billions)

	1H2022	1H2023*	Change %
Net Premiums Written	151.7	170.6	12.4
Net Premiums Earned	145.8	160.9	10.4
Pure Losses Incurred	101.0	123.1	21.8
Loss Adjustment Expenses	14.9	16.2	8.9
Underwriting Expenses	40.9	44.2	8.1
Policyholder Dividends	1.3	1.1	-12.8
Underwriting Income/Losses	-12.3	-23.7	92.5
Net Investment Income	8.7	10.0	14.5
Other Income/Losses	-0.6	-0.4	-28.5
Net Realized Cap. Gains/Losses	0.7	0.5	-30.9
Federal income Taxes	-0.9	-1.6	72.2
Net Income	**-2.0**	**-11.7**	**475.1**

* As of September 11, 2023, filings.

Source: AM Best data and research

Nonetheless, given the effects of additional weather-related events, such as Hurricane Idalia, along with a higher frequency of secondary perils (wind/hail, tornadoes, floods) and inflation lingering at elevated levels, rated mutual insurers have continued to experience volatility in operating results through the first half of 2023. Pure losses incurred are 22% higher than for the first half of 2022, leading to just under $24 billion in total underwriting losses across the segment (**Exhibit 10**). Accordingly, the overall net loss for the first half of 2023 was significantly higher than for the same period in 2022. Insurers continue to focus on growing the top line by improving rate adequacy, evidenced by modest increases in premium. Whether this is enough to keep pace with the market remains to be seen. At present, 2023 is shaping up to be yet another volatile year for mutual insurers.

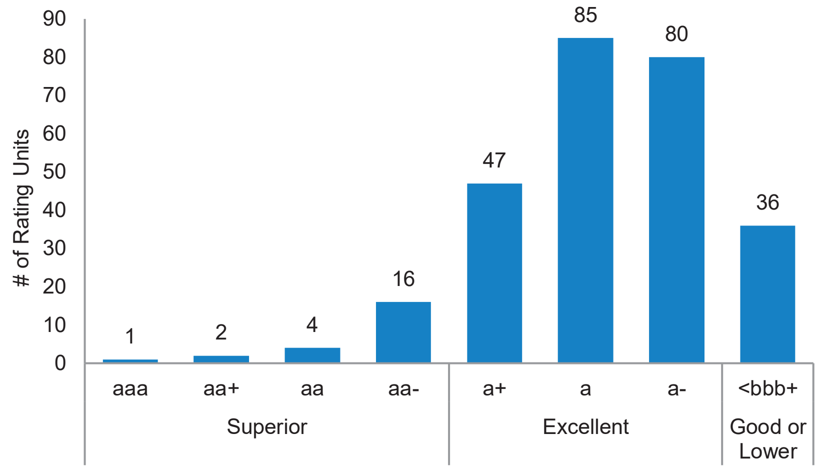
Ratings Implications

In spite of the headwinds that plagued the industry over the past year, many rated mutual companies remain financially strong. Over 86% of rated mutuals have a long-term issuer credit rating (ICR) of Excellent or Superior, similar to the prior year (**Exhibit 11**), indicating the robustness of this segment.

(Note that Exhibits 11 through 20 are based on year-to-date AM Best data. These exhibits may reflect a dissimilar number of rating units compared to earlier exhibits due to the potential addition or removal of companies from the ratings process during this time.)

The outlook on the ratings of approximately 79% mutual rating units is Stable, although this is down approximately 6% from 2021. The number of Negative outlooks increased, accounting for nearly 15% of the population, versus 9% in the year prior. The combined ratio average of the rating units with Negative outlooks is more than nine points higher than those with Stable outlooks (**Exhibit 12**).

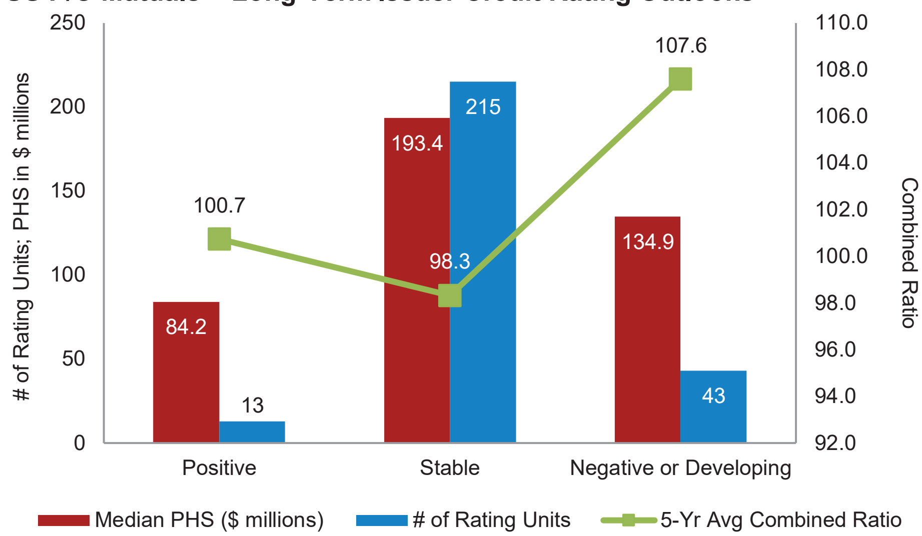
Exhibit 11
US P/C Mutuals – Long-Term Issuer Credit Ratings



Source: AM Best data and research

Balance Sheet Strength
Exhibit 13 shows that risk-adjusted capitalization levels gradually fall as you move down in assessment categories. Additionally, rating units with a balance sheet strength assessment of Strongest have considerably larger capital bases, as they hold $330 billion in policyholders' surplus versus $60 billion for rated mutuals in all other categories.

Exhibit 12
US P/C Mutuals – Long-Term Issuer Credit Rating Outlooks



Source: AM Best data and research

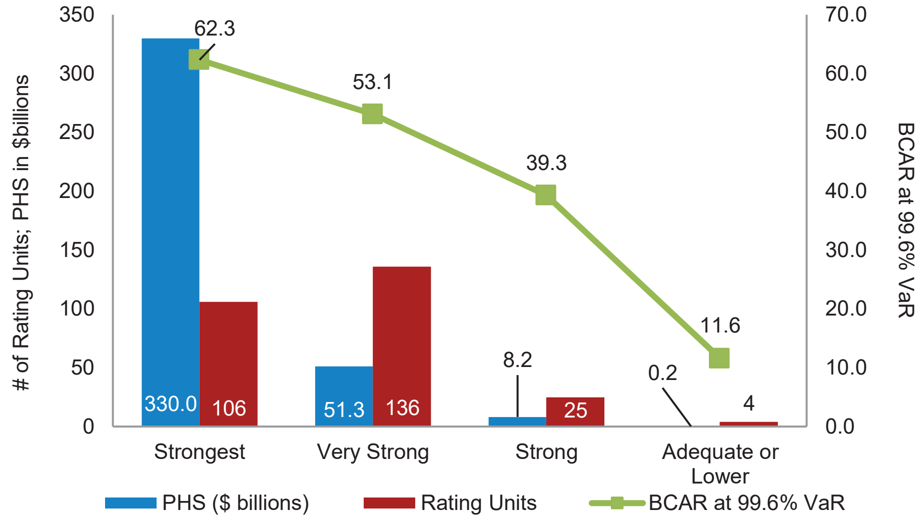
Operating Performance
The operating performance of 58% of rated mutuals is assessed as Adequate, while close to 29% of the segment is assessed as either Strong or Very Strong (**Exhibit 14**)**.** The remaining companies are assessed as Marginal or lower, as they tend to display more variability relative to the industry benchmark which has an unfavorable effect on operating results. A majority of written premiums are concentrated in companies whose operating performance is assessed as Strong or Adequate, and companies with higher operating performance assessments tend to report more favorable pre-tax returns on revenue.

The five-year median combined ratio directly corresponds to the assessment category, with companies assessed as Adequate reporting this measure right around break-even. In contrast, companies with Strong or Very Strong operating performance assessments have combined ratios in the low 90s, while companies with Marginal or lower assessments reported a combined ratio well above break-even (**Exhibit 15**)**.** The same is also true for the operating ratio. Furthermore, the standard deviation of the median five-year average combined ratio is just 12.3% for mutuals with Strong or Very Strong operating performance, versus 24.4% for companies assessed as Adequate, highlighting that higher-assessed companies have less variable performance between them.

Business Profile

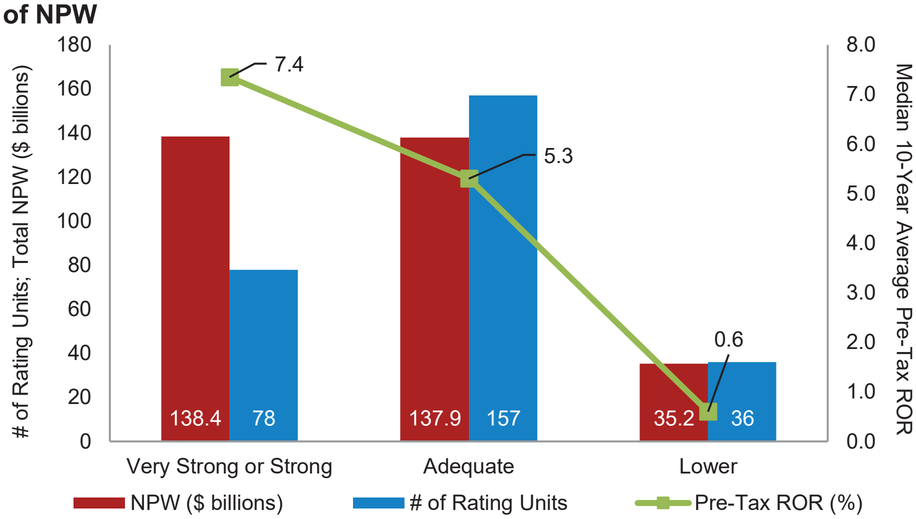
A company's business profile assessment, which reflects the degree of risk inherent in the business mix, can directly impinge on its ability to adequately manage its exposures. In 2022, this was apparent for many rated mutuals whose concentration of risk, either in a particular state, region, or product line, impacted its current and future operating performance expectations, along with its ability to meet obligations to policyholders. As such, mutual insurers with higher business profile assessments may exhibit sustainable competitive advantages related to its market position, channels of distribution, and spread of risk, while lower assessed rating units may contend with limited geographic concentration of risk, a greater degree of competition and/or exposure to potential regulatory, event, or market risks. Mutuals who hold more favorable business profile assessments may also write business within a defensible market niche, enhancing both its position within the operating territory and its capability to better manage this risk.

Exhibit 13
US P/C Mutuals – Balance Sheet Strength Assessment Distribution



Source: AM Best data and research

Exhibit 14
US P/C Mutuals – Operating Performance Assessment and Distribution of NPW



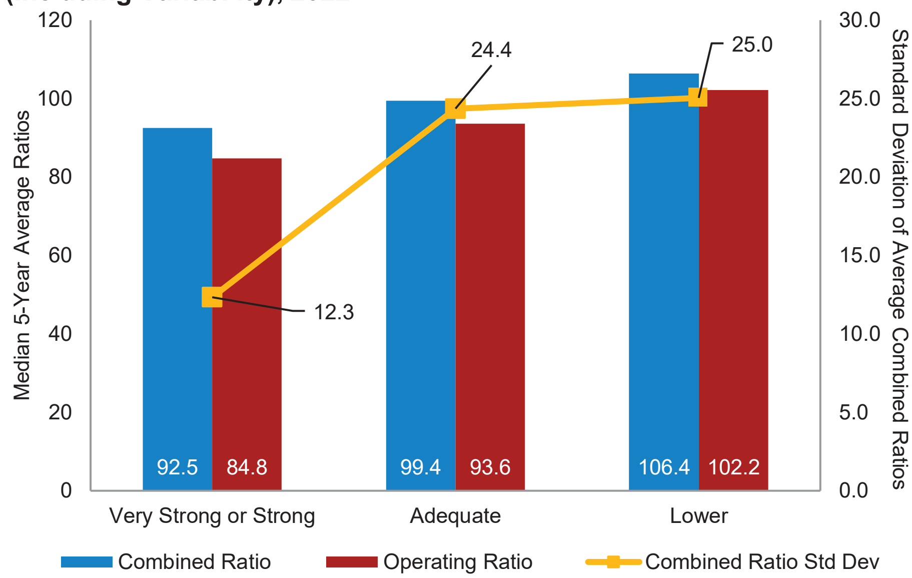
"Lower" includes marginal, weak, and very weak assessments.
Pre-Tax ROR is median of 10-year average.
Source: AM Best data and research

Approximately 64% of rated mutuals are geographically concentrated in a single state; close to 48% of rated mutuals are concentrated on the product side as well, with a single line of business accounting for the majority of premiums written (**Exhibit 16**). Rating units with this level of concentration risk recorded combined ratios above 110.0, on average, in 2022, as both geographic and product concentration can substantially influence results. This position influences the fact that more than half of the mutual population has a business profile assessment of Limited or lower (**Exhibit 17**).

However, even though the number of rating units with business profile assessments of Limited or lower comprise a majority of the segment, together they account for less than 5% of total premiums written by mutual insurers. A majority of premiums are written by companies whose business profile is assessed as Favorable or Very Favorable, accounting for nearly 9% of the mutual population. These companies likely exhibit qualities that provide them a comparative advantage against other mutuals, such as control over distribution, access to many distribution channels to avoid concentration, strong brand recognition, and/or underwriting expertise in its book of business. The remainder of the rated mutuals, accounting for just under 17% of the segment's written premiums, have Neutral business profile assessments.

Exhibit 15

US P/C Mutuals – Average Underwriting and Operating Ratios (including Variability), 2022



Source: BESTLINK

A higher business profile assessment does not merely equate to more favorable performance, as companies with a Favorable or Very Favorable business profile assessment have higher ten-year average loss & LAE ratios than the Neutral or Limited assessed companies (**Exhibit 18**). However, the ratios may have been influenced by the underwriting volatility in 2022. Offsetting this is the expense ratio, which tends to be lower for companies assessed at higher levels, presumably influenced by the size and scope of their operations. Rating units with a wider spread of risk are generally able to leverage their resources more effectively, which results in lower expenses.

Exhibit 16

US P/C Mutuals – Concentration Indicators

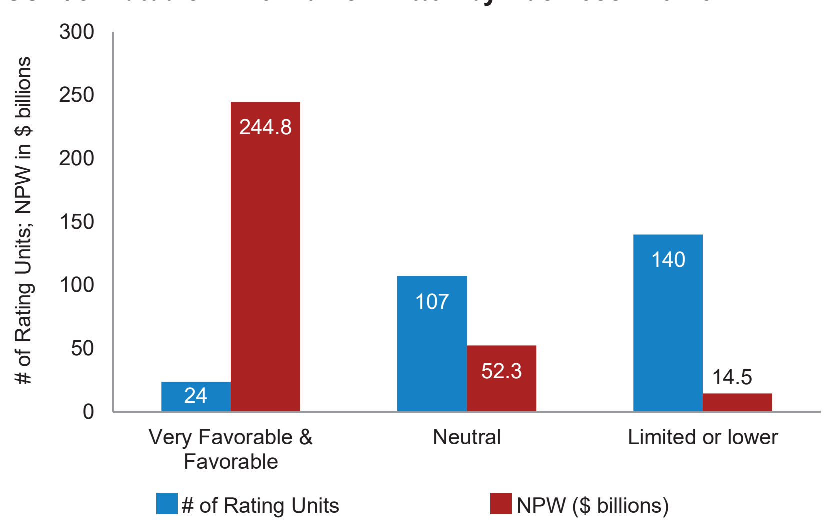
	# of Rating Units	Avg. 2022 Combined Ratio
Largest State ≥50%	174	110.7
Largest State <50%	97	101.5
Largest LOB ≥50%	130	110.8
Largest LOB <50%	141	104.3

Totals may not add up due to rounding.

Source: AM Best data and research

Exhibit 17

US P/C Mutuals – Premiums Written by Business Profile

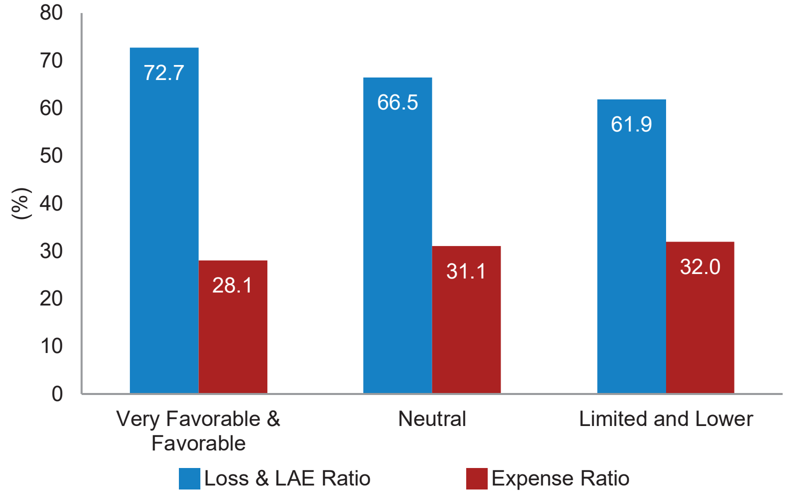


Source: AM Best data and research

Enterprise Risk Management

Finally, a mutual company's overall enterprise risk management (ERM) framework and the effectiveness of its risk management capabilities is considered as part of the rating analysis given its vital influence on an insurer's long-term success. AM Best views ERM in light of a rating unit's scope of operations and the complexity of its business, and gauges the insurer's ability to establish a risk-aware culture and use tools to identify and manage, along with measuring risk and risk correlations. For small- and medium-sized companies, less complex ERM processes may be in place, which are effective relative to their business profiles. Regardless of the level of complexity, it is crucial that a company integrate ERM in a way that identifies, measures, treats, and monitors risk.

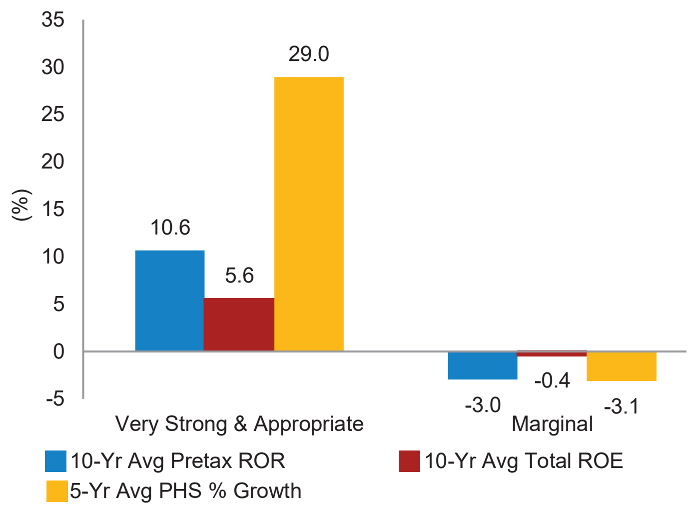
Exhibit 18
US P/C Mutuals – Incurred Loss and Expense Ratios by Business Profile



Source: AM Best data and research

Risk management capabilities often have linkage across the other building blocks: balance sheet strength, operating performance, and business profile. As **Exhibit 19** shows, companies with a higher ERM assessment tend to be more profitable from an operating performance standpoint. Key measures of operating performance, including pre-tax and total ROE are all more favorable among rated mutuals with ERM assessments of Appropriate or Very Strong, as opposed to those assessed as Marginal. This is true from a balance sheet strength perspective as well, as five-year average surplus growth is 29% for the rating units assessed as Very Strong or Appropriate, versus -3.1% for the Marginals. The vast majority, nearly 96%, of rated mutuals have an Appropriate ERM assessment.

Exhibit 19
US P/C Mutuals – Operating Return Characteristics by ERM Assessment



Source: AM Best data and research

Industry Position

Despite the challenges of recent years, the rated mutual insurers continue to hold a considerable percentage of market share as a whole (**Exhibit 20**). Market share has changed only slightly over the past ten years, indicating the segment's operating philosophy and core values, with the strong focus on long-term strength from both a financial and operational perspective.

Exhibit 20
US P/C Mutuals – Market Share of P/C Industry by DPW, 2012 vs 2022
(%)

	2012	2022
Total Rated Mutuals DPW Market Share	42.3	38.6
Top 25 Rated Mutuals DPW Market Share	35.0	31.8

Source: AM Best data and research

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