

Exploring Competitiveness in P&C Mutual Insurers

October 2, 2020 | Tim Shannon

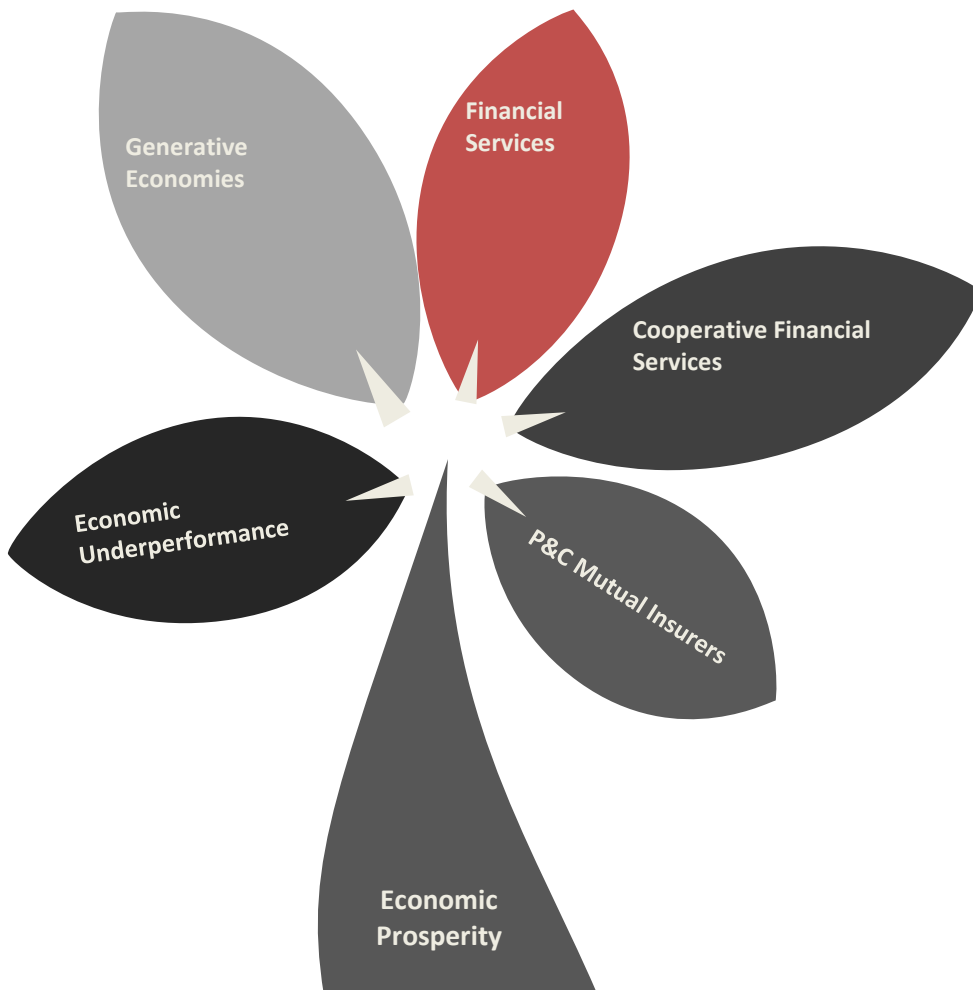
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Presentation Agenda

- 1. Research Motivation**
- 2. Research Questions and Approach**
- 3. Literature Review and Findings**
- 4. Market Share Analysis**
- 5. Primary Research**
- 6. Preliminary Conclusions and Future Research**
- 7. Discussion Section**
- 8. In Retrospect...**

Research Motivation

Growing the financial services to increase economic performance



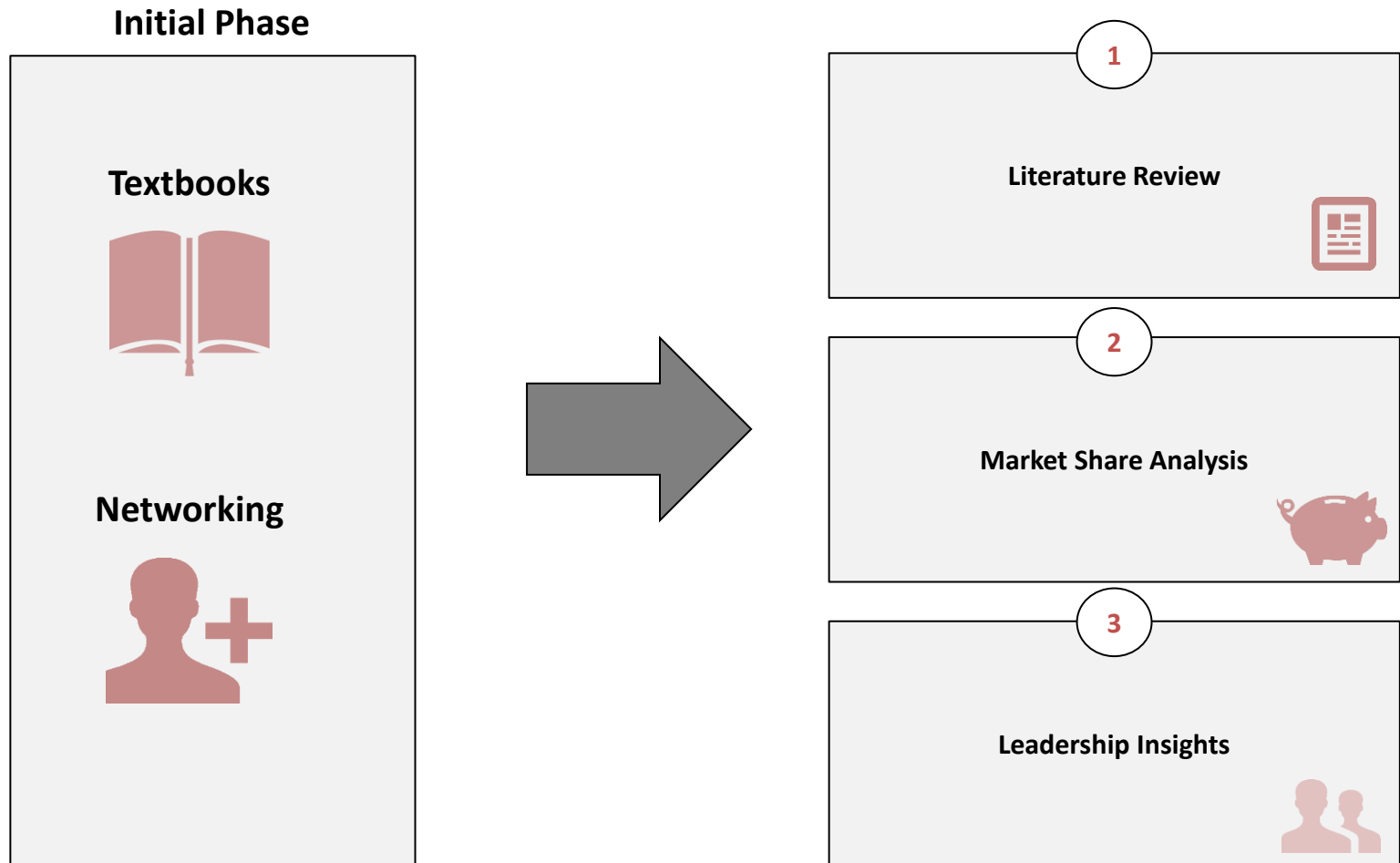
- Economic Underperformance**
The Maritime provinces significantly underperform more prosperous provinces in Canada.
- Building Generative Organizations**
Some economic underperformance can be addressed by supporting generative organizations that help create spin-off organizations.
- Financial Services**
Presently financial services in the Maritime provinces are provided by banks and insurers who are domiciled in Ontario and Quebec.
- Cooperative Financial Services**
Cooperative financial services which are usually provincially focused can take the place of these banks and insurers without losing capabilities.
- P&C Mutual Insurance Companies**
Credit unions have a major body of research supporting this but there is little on P&C mutuals. Additionally there are seven insurers in the region who have a market share of 2.7%.

Research Questions

1. What environmental factors are present where a mutual insurance company is competitive as defined by profitably growing its business and attracting new customers?
2. Do successful regionally focused mutual insurance companies have a positive economic impact on the regions they serve?
3. What factors determine the competitive efficiency of mutuals and does this determine their economic impact?
4. What are the opportunities to grow these entities?
5. What strategies and policies can increase the impact of mutual insurance companies on their surrounding communities?

Mutual Insurance Research Approach

Research on Cooperatives requires a cooperative approach.



Literature Review and Findings

Exploring Insurance, cooperatives and mutual insurers.

Insurance

Findings:

- Insurers are generally less popular than other forms of financial institutions.
- Insurance is highly regulated and very stable.
- Insurance provides security peace of mind and incentives for loss mitigation.
- Supports the availability of credit and reduces financial risk.
- Insurers promote economic growth by engaging in productive investments.
- Generative in that it creates economic spin off industries.

Cooperatives

Findings:

- Cooperatives generally provide goods and services not otherwise available.
- Cooperatives are based on a relationship of use, rather than profit.
- Cooperatives are successful when linked to a specific movement or affinity group.
- Cooperatives are generally rural and address collective action problems or access to a service/product.
- Cooperation among cooperatives is key to their competitiveness.
- Cooperatives add \$62Bn of value to the Canadian economy annually.

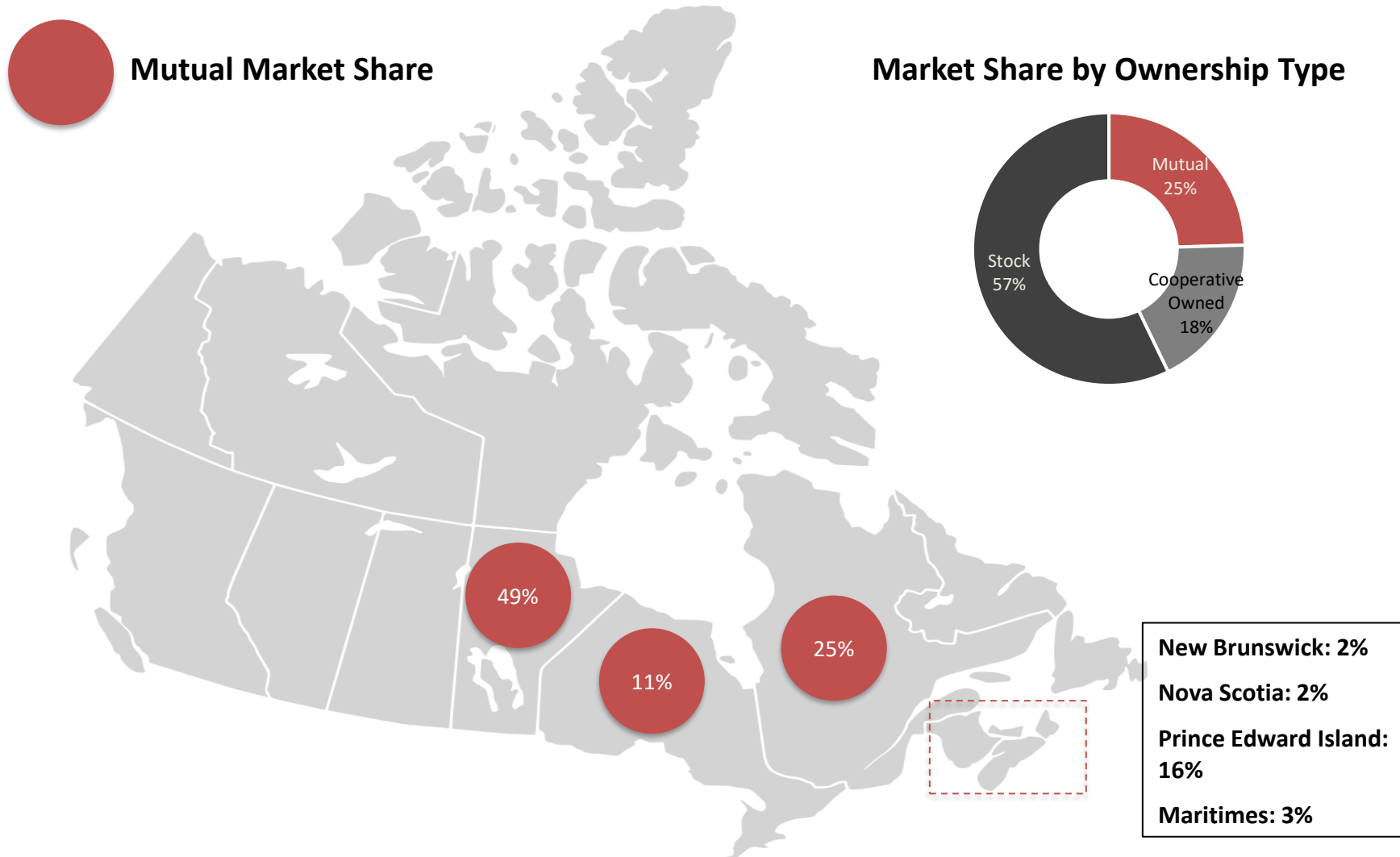
Mutuals

Findings:

- Mutual insurers have long tenure in Canada and are traditionally focused on agriculture.
- Mutual insurers are owned by their policyholders who have a residual claim on the firm's assets.
- Literature focuses largely on efficiency rather than motivations or mutualism.
- Agency issues can exist between policyholders and management.
- Mutuals better manage moral hazard and adverse selections.
- Mutuals can convert to stock ownership type.

Mutual Insurance Market Share

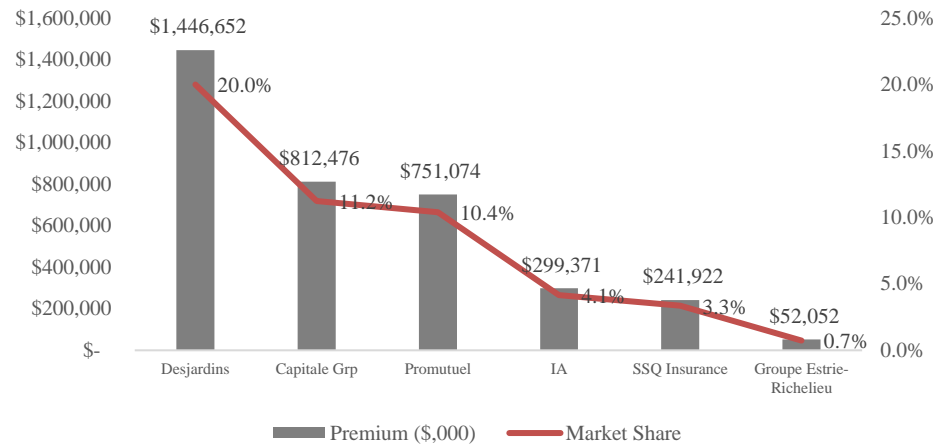
Mutual Insurers Have Healthy Market Share in Canada but Underperform in the Maritimes



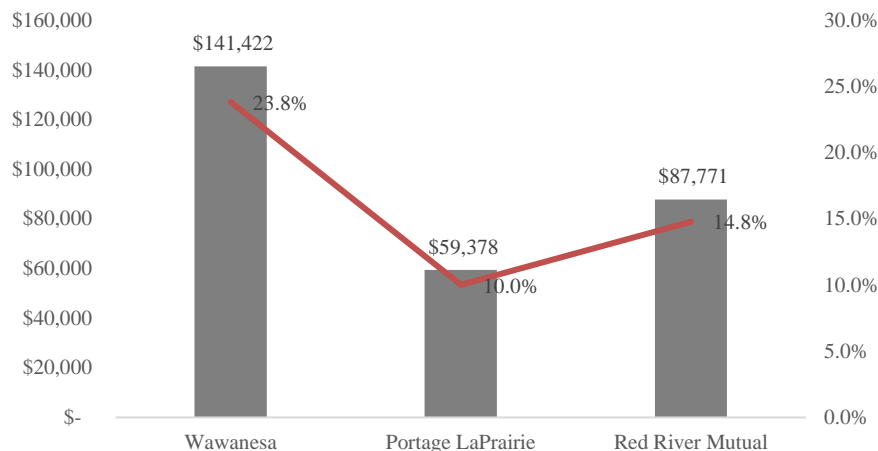
Mutual Insurance by Province for Fy'17

- Total market \$7.2Bn
- Quebec carriers generally use direct distribution.
- Promutuel is the largest mutual federation and reports their results together.
- Quebec mutuals and cooperatives are generally tied to other entities. Life, reinsurance etc.

Quebec Carriers



Manitoba Carriers

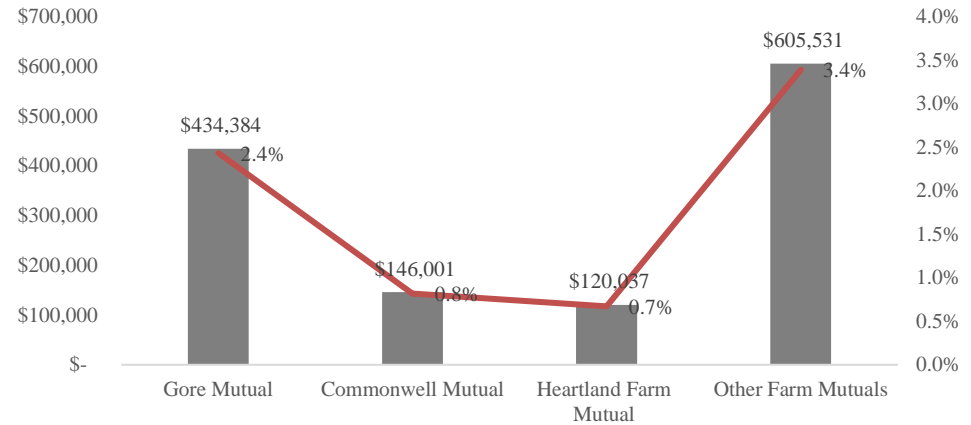


- Total market \$593m
- Manitoba hosts nationally focused mutuals and Red River which is regionally focused.
- These mutuals use brokerage distribution and are generalists.
- Mutuals have a commanding market share of 49%.

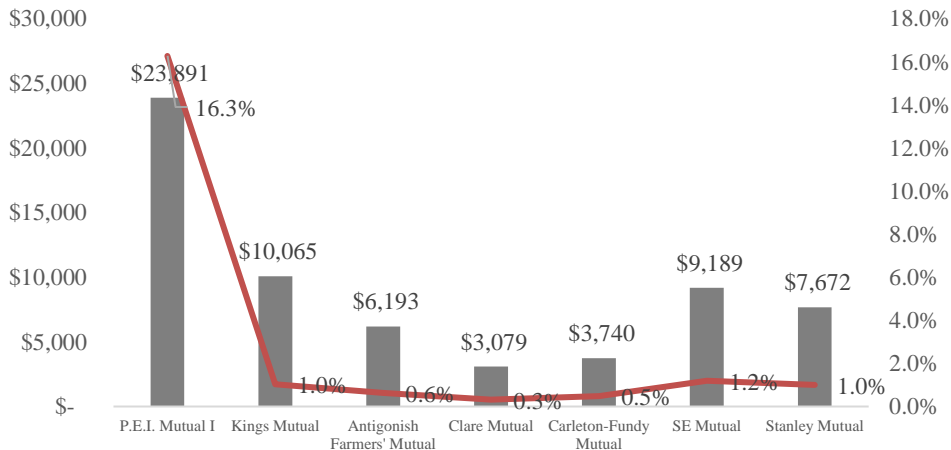
Mutual Insurance by Province for Fy'17

- Total market \$17.9Bn
- Mutuels compete through association.
- The three largest mutuels have as much market share as the remaining 34.
- Ontario has seen the majority of mutual consolidation.

Ontario Carriers



Maritime Carriers



- Total market \$1.9Bn
- Despite having a small market the region hosts 7 mutual insurers.
- They compete independently although have a regional association.
- PEI mutual is the most successful at reaching new clients.

Primary Research Methodology

Insights from Industry Leaders

Interview Methodology:

1. Used an open ended interview approach with a panel of ten senior leaders.
2. Interviews were conducted via Zoom video conferencing or telephone.
3. Interview notes were taken and 8 of ten interviews were recorded and transcribed.
4. Transcripts were reduced to key comments and the comments were categorized into sub themes.
5. The sub-themes were mapped into major themes presented.



Panel Participants

Company	Participant	Position	Region
PEI Mutual Insurance	Blair Campbell	Chief Executive Officer	Prince Edward Island
Antigonish Farmer's Mutual Insurance	Brian Morgan	Chief Executive Officer	Nova Scotia
Clare Mutual Insurance	Janice Belliveau	Chief Executive Officer	Nova Scotia
Farm Mutual Re	Jeff Consitt	Chief Operating Officer	Ontario
Ontario Mutual Insurance Association (OMIA)	John Taylor	Chief Executive Officer	Ontario
Heartland Farm Mutual	Louis Durocher	Chief Executive Officer	Ontario
Canadian Association of Mutual Insurance Companies (CAMIC)	Normand Lafreniere	Chief Executive Officer	National
SE Mutual	Shaun MacPhee	Chief Executive Officer	New Brunswick
Trillium Mutual Insurance	Tracy MacDonald	Chief Executive Officer	Ontario
Portage LaPrairie Mutual Insurance	Wayne Wyborne	Chief Operating Officer	Manitoba

Insights for Industry Leaders: History & Cooperation

Questions:

1. Can you tell me a little about the history of your company, and which demographic you serve? (Is it still agricultural?)
2. Is your company a member of any cooperative associations or federations, and if so, do you find them beneficial?
3. Cooperation among mutuals is important, do you find that you have a good cooperative relationship with larger mutuals like Wawanesa, Cooperators etc.?

Findings:

- **Agricultural roots dating back to 1836.**
- **Premium note system**
- **Cooperation through associations, but not broader cooperative associations.**
- **Larger cooperatives participate in legislative agenda.**
- **Meaningful cooperation through guarantee funds and ownership of Farm Mutual**
Re.

Insights for Industry Leaders: Community Impact

Questions:

1. How does your company participate in the community?

Findings:

- **Community giving was reported by most participants and was a key focus area in the interviews.**
 - Formal giving programs
 - Philosophy based
 - Participation
- **Job creation.**
- **Participation in the social economy.**

Insights for Industry Leaders: Distribution

Questions:

1. Which channels are you using to reach the market? (Brokerage, direct, agencies)
2. Can you tell me how consolidation in the mutual insurance industry is affecting your company?

Findings:

- Traditionally an agency based channel.
- Broker distribution is the primary channel in Ontario and Manitoba where agents still exist but are 'legacy elements'.
- The Maritime province insurers use agency distribution.
- Distribution is closely related to expense ratio.
- Amalgamation of brokerage channel was a concern, but there was support for insurer amalgamation.
- Owned distribution through activities like Collectifide.

Insights for Industry Leaders: Product and Pricing

Questions:

1. Which lines of business are you planning to grow and through which channels?
2. Which products lines do you participate in, and are you comfortable to discuss the results of each including frequency and severity?

Findings:

- **Mutuals interviewed are generalists from a product perspective.**
- **Largely writers of personal property and focused on growing in commercial lines business.**
- **Underwriting exceptions.**
- **Reinsured specialty products.**
- **Brokered products and accessing managing general agents.**
- **Sophisticated pricing and credit scoring.**

Insights for Industry Leaders: Policyholder Engagement

Questions:

1. How do members access information about the company and who is responsible for member relationships?
2. Do you have management committees where members participate in recommendations or decision making?
3. How does your firm distinguish the benefit of membership compared to be a policy holder at another type of insurer?

Findings:

- Policyholders are engaged through Annual General Meeting and represented by agents.
- Policyholders are not generally consulted on the creation of a strategic plan except in that instance.
- Policyholders are not engaged in other committees.
- Technology connectivity a potential in the future.
- There is potential for engagement through associations.
- There is no clear differentiator reported by participants.

Insights for Industry Leaders: Capital

Questions:

1. Does your firm buy reinsurance from the open market or from a mutual solution like Farm Re?
2. Do you have any mechanism for geographic risk sharing with other insurers?
3. How does your firm manage its capital to support growth?
4. Does provincial public debt make up a part of your company's investment portfolio?
5. Do mortgage loans make up part of your investment portfolio?

Findings:

- **Capital to risk ratios are very high for mutual insurers compared to stockholder owned insurers.**
- **Participants do not generally use risk sharing mechanisms with other insurers.**
- **Specialized securities were only reported by one participant.**
- **ESG Investing was reported as an area with potential.**
- **Commercial lending existed in the context of brokers.**

Insights for Industry Leaders: Other Insights

Themes:

1. Leadership
2. Technology
3. Industry predictions

Findings:

- **Leadership and their functions were reported as being in line with the broader insurance industry, except controls on board tenure.**
- **Technology was an area of cooperation for smaller mutuals but larger peers used a non mutual solution. Social media was noted as an area for improvement.**
- **Industry future holds more consolidation, technology to address expense ratios and potential benefits from the social economy.**

Preliminary Conclusions

Insights and Meaning Garnered from Qualitative Research

- 1. Mutual insurers excel in areas where there are natural affinities or in areas with geographic borders. Some interviewees noted that they serve rural populations but this does not appear to be a distinct affinity.**
- 2. Mutual insurers are positive economic contributors, based on availability of insurance through community giving, and job creation.**
- 3. Management efficiency is desirable and opportunities for better board governance and agency issues play a key role. Regional expertise may or may not support lower moral hazard and adverse selection.**
- 4. Opportunities to grow include new products and geographic expansion and 'owning distribution'.**
- 5. There is opportunities for investment to be a differentiator.**

Future Research:

- 1. Efficiency of regional mutuals compared to larger mutuals.**
- 2. Mutuals in the context of the larger cooperative environment.**
- 3. Investment opportunities for policyholder surpluses.**

Discussion Section

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In Retrospect...

A few things I would have done differently:

- **Used a 'learning experience' approach to this research.**
- **Been more open to change in the initial stages of the research.**
- **Addressed data analysis first even if it had to be redone or tweaked later.**
- **Changed interview procedure**
 - Used a written survey before the interview.
 - Timed the interviews better (frontloaded some information).
- **Been less ambitious in scope to achieve more concrete conclusions.**

Additional Slides

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Sample S.W.O.T. Analysis

Focused on Maritime province mutual insurers.



Sample P.E.S.T. Analysis

Focused on Maritime province mutual insurers.

Category	Commentary
Political and Legal	<ul style="list-style-type: none">• Insurance premiums are highly political and regulated differently in each province.• Pandemic related lawsuits are an emerging risk in the industry.• Federal regulation is highly focused on solvency.
Economic	<ul style="list-style-type: none">• Poor economic performance in the region has an impact on insurance..• Impact of the pandemic across all business sectors.• Poor investment returns due to low interest rates.
Social	<ul style="list-style-type: none">• The insurance industry has a generally poor reputation with the public.• Demographics are changing as the population ages in the region.• Urbanization will be a threat to insurers focused on rural population, particularly as income shifts with it.
Technology	<ul style="list-style-type: none">• Mutual insurance solutions are good but not great.• Market is shifting towards Guidewire claims and policy admin offering potential for high integration with distributors and suppliers.• Social media is a growth driver.