2019 THE MUTUAL FACTOR

How Performance, Structure, and Focus Set Mutual Insurance Companies Apart

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NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

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TABLE OF CONTENTS

INTRODUCTION

Mutual insurance companies represent a large and diverse segment of the property/casualty insurance industry. In some states and lines of insurance, mutual companies insure well over half of the total market. Mutuals protect millions of policyholders in every state in the country.

The defining difference between mutual insurers and stock insurers is that mutual companies operate solely for the benefit of their policyholders. Mutual insurers do not have shareholders – they do not have owners in the traditional sense of corporate stock/equity ownership. Instead, in addition to being customers, mutual policyholders possess distinct governance and other control rights in the company. The mutual insurer and its policyholders share an alignment of interests that is unique and without the potentially conflicting interest of shareholders who expect a return on their investment.

This report, by the National Association of Mutual Insurance Companies, provides an updated analysis of the marketplace performance of mutual property/casualty insurance companies. It is the second iteration in the "Mutual Factor" series of annual reports initiated last year by NAMIC as a way of providing a detailed overview of the market performance of mutual insurance companies. The objective of the 2019 report is to update some of the distinctions in key metrics of operating performance between mutual and stock insurers and the insurance industry overall during 2018.

NAMIC is proud to publish this report in partnership with Aon. While the first Mutual Factor report issued in September 2018 provides the benchmark for comparison, there are some notable differences in the 2019 version. In addition to providing updated performance metrics for mutuals, the 2019 report also includes a look at how mutual companies are rated under the updated AM Best Credit Rating Methodology framework released in 2017. The 2019 Mutual Factor also goes beyond the general consumer audience to take a look at how mutual companies are perceived among a more knowledgeable consumer base as represented by commercial insurance buyers.

EXECUTIVE SUMMARY OF FINDINGS

The property/casualty insurance industry is a massive and extremely competitive business. With more than $600 billion in premiums written in 2018 there are dozens and sometimes hundreds of insurers competing for policyholders and premium dollars in some markets. Competition breeds diversity in approach to the assessment, pricing, and financing of risk. It is that diversity that is one of the insurance industry's greatest assets and a key driver of the industry's enduring strength in the face of often unforeseeable adversity and innumerable challenges.

The roots of modern insurance originate indisputably with mutual insurers – entities organized for the sole benefit of their members. The understanding that mutual risks could be pooled to benefit all members of the pool is a simple and intuitive concept dating back to ancient times and remains as relevant today as ever. Mutual insurers today compete with other insurers, particularly stock insurers that operate for the benefit of their investors. In recent years, capital markets have sought to play a larger role, particularly in the area of reinsurance.

The different organizational structures within the insurance industry naturally give rise to somewhat different approaches to the management and pricing of risk as well as investment strategies that, in turn, result in differences in operating performance.

The 2019 Mutual Factor report provides evidence of the overall financial strength and stability of the mutual insurance segment as it relates to market performance. The report looks at some distinctions in the key measures of operating performance between mutual and stock insurers and the industry overall during 2018 and over a five-year period. In addition, the report analyzes the impact of ratings agency criteria on mutuals, and looks at how the mutual industry is perceived by key stakeholders. A total of nearly 30 metrics are compared across the mutual, stock, and "other" insurer categories. Some of the key findings are as follows:

MARKET PERFORMANCE

Mutual insurers recorded loss and loss adjustment expenses of 73.0 percent of premium for 2018 while stock companies came in slightly lower at 70.2 percent. This trend continues on a five-year basis with 73.8 percent for mutual companies and 69.7 percent for stock. Both segments are aligned with the total industry at 71.4 percent for 2018 and 71.6 percent on a five-year basis.

Expense ratios across all segments of the insurance industry vary little, with the expense ratio of mutual insurers (27.0 percent) slightly lower than that of stock insurers (27.2 percent) for 2018. The expense ratio is similar for mutuals and stocks on a five-year basis as well. Commission and brokerage expenses as a percentage of premiums written were slightly lower for mutual insurers (10.5 percent) than for stock insurers (11.9 percent) and the industry overall (11.2 percent).

In 2018, the dividend ratio, a gauge of the proportion of premium returned to policyholders, was five times larger for mutuals (1.1 percent) than for stock companies (0.2 percent).

Capital and surplus in the mutual segment grew by 1.8 percent in 2018, an improvement in comparison to stock companies which saw surplus growth decline by more than 3.0 percent due to higher underwriting costs.

The pace of increase in capital and surplus was nearly double that of premium growth in 2017, therefore reducing leverage industrywide – and thereby increasing the amount of capital standing behind each dollar of premium written. Mutual insurers were slightly less leveraged than their stock counterparts in 2018, with $1.23 in policyholder surplus backing up each dollar in net premiums written compared to $1.20 for stock insurers.

Low interest rates remained a challenge for the insurance industry in 2018, with yields on invested assets remaining near 3.0 percent for mutual and stock companies alike, at or close to their lowest levels since the beginning of the financial crisis in 2008. Yields are slightly lower for mutual insurers, suggesting a somewhat more conservative fixed-income portfolio.

Profitability across the entire property/casualty insurance industry increased in 2018 due in large part to lower catastrophe losses since 2017. The return on average surplus for the mutual segment was 6.3 percent last year compared to 9.2 percent for stock insurers.

Mutual insurers typically operate with lower returns on surplus, i.e., equity, because policyholders, not external shareholders, are the owners of the company and benefit in other ways from their relationship with insurers, e.g., policyholder dividends and lower pricing.

MUTUAL AM BEST RATINGS

The 2019 Mutual Factor report includes a study on how mutual companies compare to stock companies under AM Best's Credit Rating Methodology (BCRM). The study includes all rating components throughout the BCRM and shows that mutual insurer ratings compare favorably to ratings of stock insurers. Specific highlights include:

Mutual companies are well capitalized with median Best's Capital Adequacy Ratio (BCAR) at the VaR 99.6 of 59%, 10 points higher than stock companies at 49%. Ninety percent of mutual companies also have the "Strongest" or "Very Strong" balance sheet strength, compared to 78% for stock companies.

Although 84% of both mutual and stock companies have an "Adequate" or better operating performance assessment, stock companies show 25% higher standard deviation when looking at five-year combined ratio volatility.

Forty-seven percent of mutual companies have a "Neutral" or better business profile, compared to 40% of stock companies. Mutual companies also compare better than stock companies in Enterprise Risk Management with 96% scoring "Adequate" or better and 91% of stock companies scoring the same.

COMMERCIAL INSURANCE CONSUMER PERCEPTIONS

The 2019 Mutual Factor report surveyed 552 commercial property/casualty insurance purchasers to determine their perception of mutual insurers in comparison to stock insurance companies. Overall, the results found that the mutual commercial insurance industry has an excellent reputation among commercial insurance decision makers. Specific highlights include:

Ninety-five percent of all respondents are aware of mutual companies in the commercial market and 65% are already very or somewhat favorable to these companies.

Decision-makers who are more familiar with mutual companies in the commercial insurance space are much more positive, with favorability climbing to 87 percent.

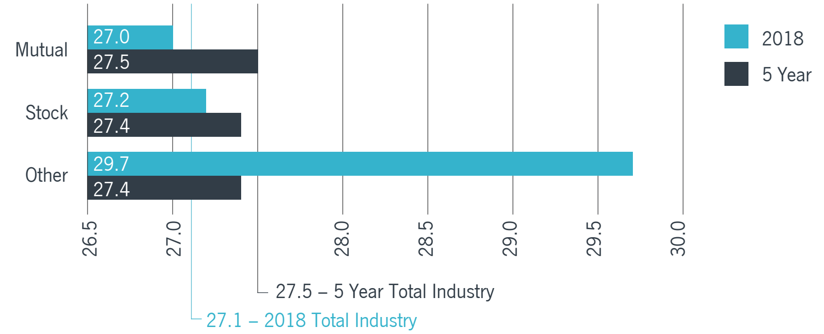
More than four in five respondents associate mutual companies with the most important evaluative criteria – excellent customer service, fairness in settling claims, and financial strength.

Decision-makers in very small companies, with 25 or fewer employees, consistently show ambivalence toward both mutual and stock companies.

THE STATE OF MUTUALS

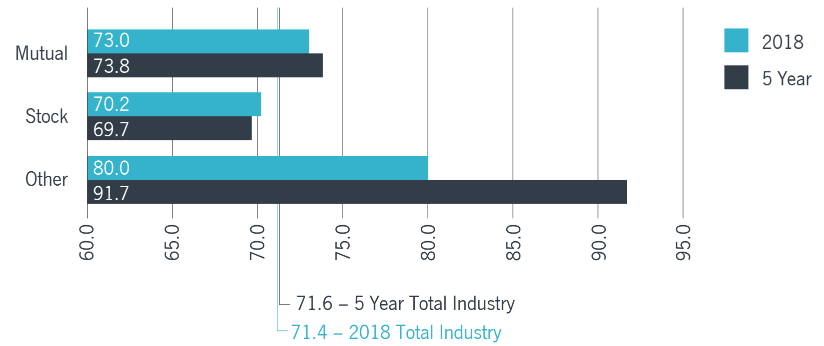
EXPENSE RATIO (%)

The expense ratio of mutual insurers (27.0%) is slightly lower than that of stock insurers (27.2%). On a five-year basis, the expense ratio for mutuals and stocks is comparable at 27.5% and 27.4%, respectively. This suggests that the expense load for mutuals is competitive with that of stock insurers and the market overall.



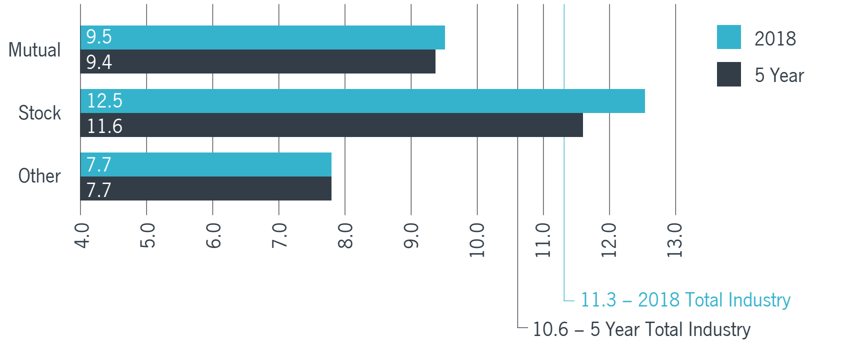
LOSS & LAE RATIO (%)

Mutual insurers typically pay out a higher share of each premium dollar in claims and claim-related expenses, known as loss adjustment expenses or LAE, than stock insurers. In 2018, mutual insurers paid out 73.0% of each premium dollar for claims and claim-related expenses compared to 70.2% for stock insurers. Results are consistent when evaluated on a five-year basis with the Loss & LAE ratio for mutuals at 73.8% and stocks at 69.7%. The higher Loss & LAE ratio for Other reflects elevated losses from workers' compensation state funds.



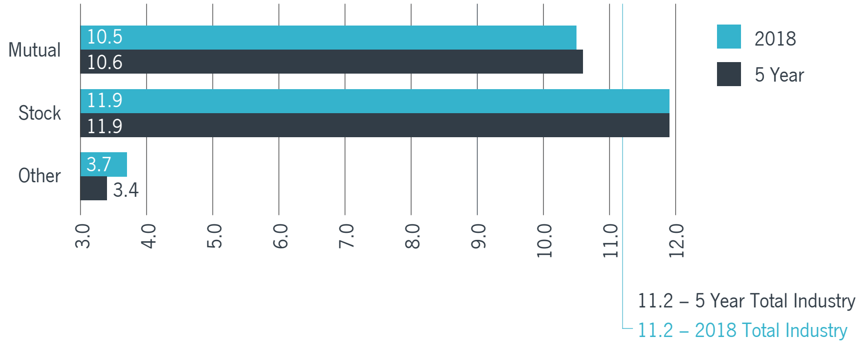
NET COMMISSION RATIO (%)

The commission expense ratio of mutual insurers (9.5%) is 3 points better than stocks (12.5%) for 2018, reflecting the benefit of scale and commission structure of large mutual insurers. Mutual results are similar on a five-year basis at 9.4%, while stocks five-year commission ratio (11.6%) is almost a point lower than 2018.



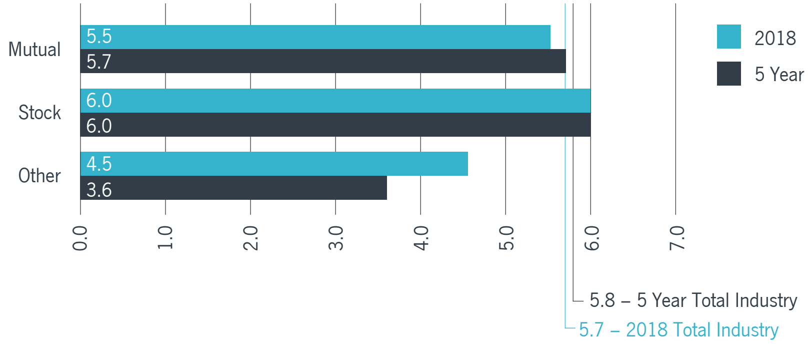
DIRECT COMMISSION & BROKERAGE EXPENSE RATIO (%)

The direct commission and brokerage expense ratio of mutual insurers (10.5%), is modestly better than stocks (11.9%) for 2018, reflecting the benefit of scale and commission structure of large mutual insurers. Five-year results are similar to 2018, with mutuals at 10.6% and stocks at 11.9%.



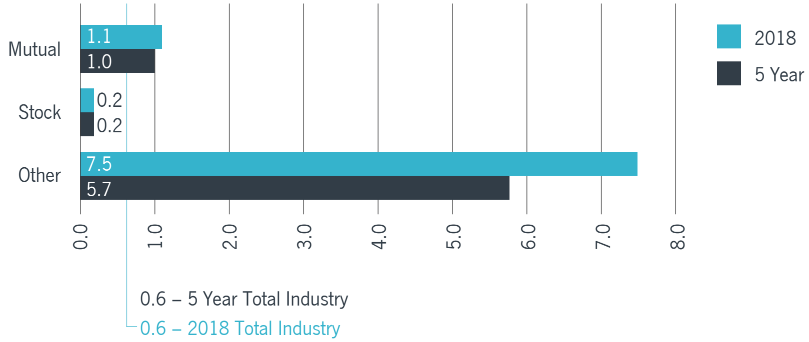
DIRECT GENERAL EXPENSE RATIO (%)

General expenses reflect the cost to the insurer of underwriting and servicing policies. Expressed as a ratio to direct premiums written, this ratio in 2018 was lower for the mutual insurer segment at 5.5% compared to 6.0% for stock insurers and 5.7% for the industry overall. On a five-year basis, the result for mutuals is slightly higher at 5.7%, while it remains the same for stocks at 6.0%.



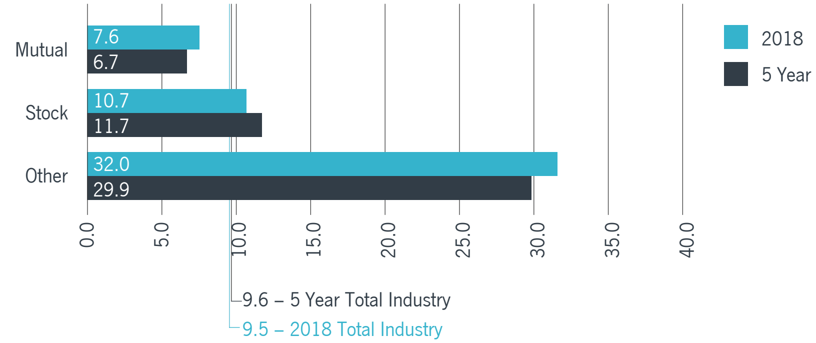
DIVIDEND RATIO (%)

Paying dividends to policyholders is much more common among mutuals than stock companies, reinforcing the fact that mutual policyholders are also the company's owners. In 2018, mutual insurers paid dividends to policyholders equal to 1.1% of net premiums compared to 0.2% for stock companies, with the total industry falling within the median at 0.6% for the year. Dividend payments remain consistent for mutuals and stocks over five years. Policyholder dividends are an important customer retention tool for some mutuals and can also represent a reward and incentive for policyholders who file few, if any, claims.



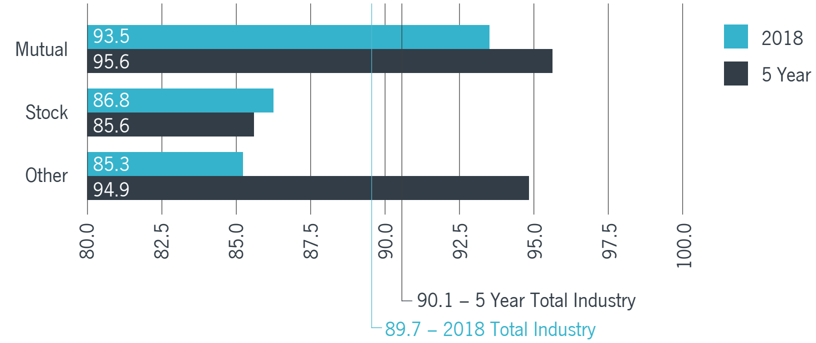
NET INVESTMENT INCOME RATIO (%)

The net investment income ratio for mutual insurers in 2018 stood at 7.6%, below the 10.7% recorded for stock insurers. The same trend can be identified on a five-year average, where the net investment income ratio for mutuals is 6.7%, which is drastically lower than the stocks' 11.7%. The lower figure reflects, in part, the mutual segment's more conservative approach to investing and lower asset leverage. The high net investment ratio for Other is a result of state funds and higher asset leverage to back long-tailed reserves.



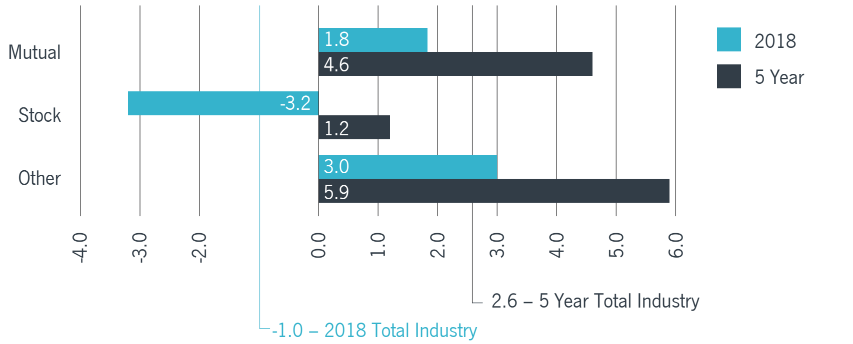
OPERATING RATIO (%)

The operating ratio for mutual insurers in 2018 was approximately 6.7 points higher than for stock insurers. Over the last five years mutual insurers were approximately 10.0 points higher than stock insurers. This emphasizes the combined effects of higher loss ratios and a lower investment income ratio.



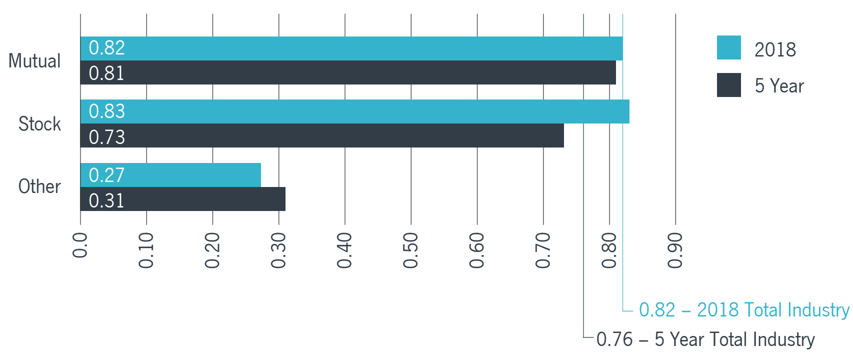
CAPITAL AND SURPLUS GROWTH (%)

Capital and surplus in the mutual segment grew by 1.8% in 2018, which emphasizes improvement in comparison to stock companies, with surplus growth decreasing 3.2%, in part due to higher underwriting losses. The total industry is higher than stocks at -1.0%; however, it is important to note that there is a decrease in the overall industry. The last five years showed positive surplus growth for mutuals (4.6%) and stocks (1.2%). This overall growth was very strong by historical standards and occurred despite heavy catastrophe losses. The industry failed to conclude with record surplus on hand for year-end 2018; however, resilience in the market, sound risk management practices, and prudent use of reinsurance were prevalent.



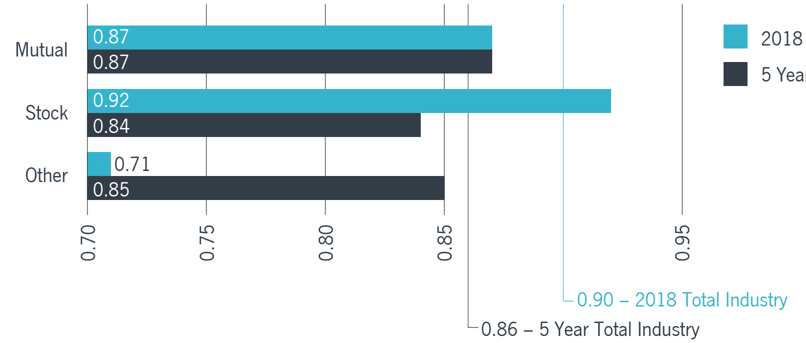
NET WRITTEN PREMIUM TO SURPLUS RATIO (%)

Mutual insurers typically are slightly less leveraged than stock insurers. This means that mutual insurers carry more surplus, i.e., claims paying capital, per dollar of net written premium. In 2018, mutual insurers held \$1.23 in surplus for every \$1 in net written premiums received, compared to \$1.20 for stock insurers. These both compare similarly to the total industry, in which the industry holds \$1.22 in surplus for every \$1 in net written premiums. This suggests that mutuals and stocks carry adequate surplus.



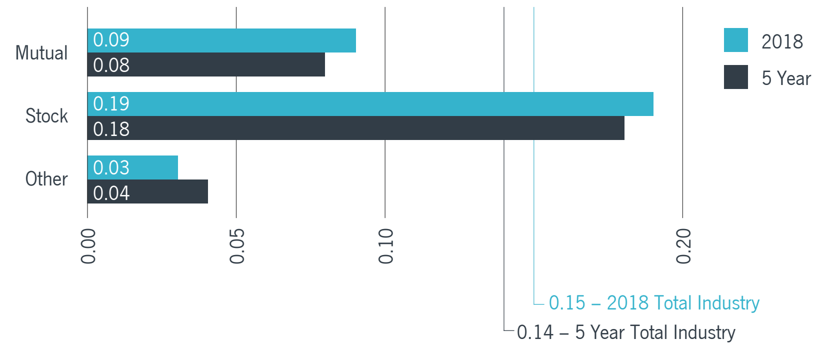
DIRECT WRITTEN PREMIUM TO SURPLUS (%)

Mutual insurers typically are less leveraged than stock insurers. This means mutual insurers carry more surplus, i.e., claims paying capital, per dollar of direct written premium. Over a five-year basis, this trend does not hold true as stock insurers held $1.18 per $1 in direct written premium, compared to $1.14 for mutual insurers. However, in 2018, mutual insurers were less leveraged as they held $1.15 per $1 in direct written premium compared to $1.09 per $1 in direct written premium for stock insurers.



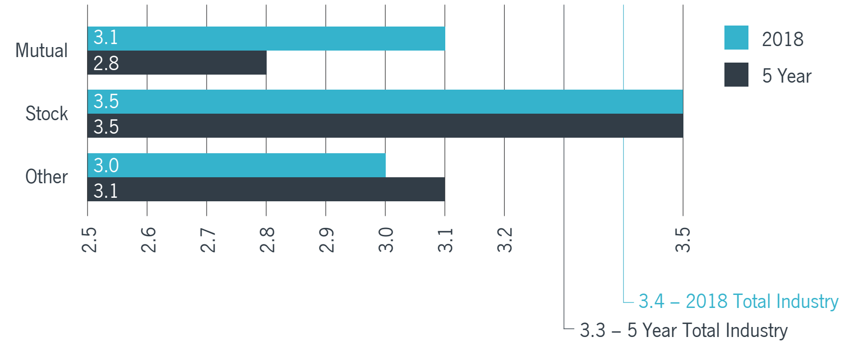
CEDED-TO-DIRECT WRITTEN PREMIUM RATIO (%)

Ceded-to-direct written premium shows how much reinsurance is purchased relative to a company's direct writings. Mutual insurers are ceding under 10% of their direct writings, while stock companies are ceding closer to 20% for 2018 and on a five-year basis.



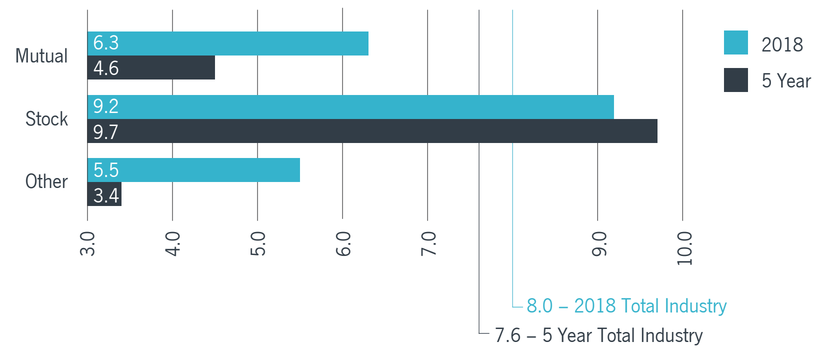
NET YIELD ON INVESTED ASSETS (%)

Persistently low interest rates remain a challenge throughout the insurance industry, with yields on invested assets in the 3.0% to 3.5% range compared to more than 4.5% prior to the onset of the financial crisis in 2008. Federal Reserve rate hikes nudged investment yields upward in 2018. This could be seen with an increased mutual net yield on invested asset of 3.1%, compared to their five-year average of 2.8%.



RETURN ON AVERAGE EQUITY (C&S) (%)

Profitability across the entire property/casualty insurance industry increased in 2018 in large part due to lessened catastrophe losses since 2017. Return on Average Equity (Capital & Surplus) is lower within the mutual segment due primarily to the fact that mutuals are less leveraged than stock insurers (they carry more surplus for every dollar of premium written) and because they tend to invest more conservatively. In addition, because several large mutuals ceded premiums between stock and mutual subsidiaries, a higher proportion of loss was retained on the books of these mutuals than would have been the case if premiums were ceded to non-affiliated reinsurers.



2018 RAW DATA

Aggregate Underwriting Ratios				
	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	260,007,538	355,230,445	2,999,485	618,237,468
Net Earned Premium ($)	256,027,816	340,625,025	3,030,451	599,683,292
Expense Ratio (%)	27.0	27.2	29.7	27.1
Loss & LAE Ratio (%)	73.0	70.2	80.0	71.4
Dividend Ratio (%)	1.1	0.2	7.5	0.6
Combined Ratio (%)	101.1	97.5	117.2	99.2
Net Investment Income Ratio (%)	7.6	10.7	32.0	9.5
Operating Ratio (%)	93.5	86.8	85.3	89.7

Additional Aggregate Metrics				
	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	260,007,538	355,230,445	2,999,485	618,237,468
Direct Written Premium ($)	278,453,211	391,776,096	7,956,624	678,185,930
Dir. Commission & Brokerage Exp. ($)	29,131,684	46,726,959	292,984	76,151,627
Ceded Reins: Premiums Ceded ($)	24,810,047	73,585,538	251,327	98,646,911
Gross Written Premiums ($)	284,190,148	438,319,072	8,042,508	730,551,728
Surplus, 2018 ($)	318,964,914	426,517,838	11,159,885	756,642,637
Net Total Assets ($)	735,324,002	1,255,301,409	33,921,723	2,024,547,134
Net-to-Direct Written Premium Ratio	0.93	0.91	0.38	0.91
Ceded-to-Direct Written Premium Ratio	0.09	0.19	0.03	0.15
Ceded-to-Gross Written Premium Ratio	0.09	0.17	0.03	0.14
Net Commission Ratio (%)	9.5	12.5	7.7	11.3
Dir. Com. & Brokerage Exp. Ratio (%)	10.5	11.9	3.7	11.2
Direct General Expense Ratio (%)	5.5	6.0	4.5	5.7
Capital & Surplus Growth (%)	1.8	-3.2	3.0	-1.0
Net Written Premium to Surplus Ratio	0.82	0.83	0.27	0.82
Dir. Written Premium to Surplus Ratio	0.87	0.92	0.71	0.90
Pretax Return on Revenue (%)	6.0	12.1	15.3	9.5
Return on Average Equity (C&S) (%)	6.3	9.2	5.5	8.0
Return on Average Assets (%)	2.7	3.2	1.8	3.0
Net Yield on Invested Assets (%)	3.1	3.5	3.0	3.4

Source: S&P Global Market Intelligence

FIVE-YEAR RAW DATA*

Aggregate Underwriting Ratios	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	239,949,812	302,990,597	3,146,887	546,087,296
Net Earned Premium ($)	235,910,138	296,340,029	3,173,329	535,423,496
Expense Ratio (%)	27.5	27.4	27.4	27.5
Loss & LAE Ratio (%)	73.8	69.7	91.7	71.6
Dividend Ratio (%)	1.0	0.2	5.7	0.6
Combined Ratio (%)	102.3	97.3	124.8	99.7
Net Investment Income Ratio (%)	6.7	11.7	29.9	9.6
Operating Ratio (%)	95.6	85.6	94.9	90.1

Additional Aggregate Metrics	Segment			
	Mutual	Stock	Other	Total
Net Written Premium ($)	239,949,812	302,990,597	3,146,887	546,087,296
Direct Written Premium ($)	258,366,609	351,127,251	8,565,232	618,059,092
Dir. Commission & Brokerage Exp. ($)	27,291,259	41,887,727	295,253	69,474,239
Ceded Reins: Premiums Ceded ($)	21,209,295	62,292,610	302,404	83,804,309
Gross Written Premiums ($)	264,047,525	394,518,851	8,654,372	667,220,748
Surplus, Five-Year Average ($)	295,579,356	415,788,311	10,086,013	721,453,681
Net Total Assets ($)	683,567,484	1,180,570,302	32,793,848	1,896,931,633
Net-to-Direct Written Premium Ratio	0.93	0.86	0.37	0.88
Ceded-to-Direct Written Premium Ratio	0.08	0.18	0.04	0.14
Ceded-to-Gross Written Premium Ratio	0.08	0.16	0.03	0.13
Net Commission Ratio (%)	9.4	11.6	7.7	10.6
Dir. Com. & Brokerage Exp. Ratio (%)	10.6	11.9	3.4	11.2
Direct General Expense Ratio (%)	5.7	6.0	3.6	5.8
Capital & Surplus Growth (%)	4.6	1.2	5.9	2.6
Net Written Premium to Surplus Ratio	0.81	0.73	0.31	0.76
Dir. Written Premium to Surplus Ratio	0.87	0.84	0.85	0.86
Pretax Return on Revenue (%)	4.1	13.1	4.3	9.1
Return on Average Equity (C&S) (%)	4.6	9.7	3.4	7.6
Return on Average Assets (%)	2.0	3.5	1.0	2.9
Net Yield on Invested Assets (%)	2.8	3.5	3.1	3.3

*Five-year data represents data from 2014 through 2018

TOP TEN MUTUAL WRITERS

	Group/Company	Direct Written Premium ($000)	Overall Rank	Market Share
1	State Farm	$65,861,617	1	9.7%
2	Liberty Mutual	$34,605,081	3	5.1%
3	USAA	$21,984,970	8	3.2%
4	Farmers Insurance	$20,309,974	9	3.0%
5	Nationwide	$18,416,861	10	2.7%
6	American Family Insurance	$10,010,558	15	1.5%
7	Auto-Owners Insurance	$8,133,135	16	1.2%
8	Erie Insurance	$7,119,636	19	1.1%
9	Auto Club Exchange	$4,268,678	32	0.6%
10	CSAA Insurance Exchange	$4,078,615	33	0.6%

Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF PERSONAL AUTO

	Group/Company	Direct Written Premium ($000)	Overall Rank	Market Share
1	State Farm	$41,963,578	1	17.0%
2	USAA	$14,467,936	5	5.9%
3	Liberty Mutual	$11,776,654	6	4.8%
4	Farmers Insurance	$10,496,476	7	4.3%
5	Nationwide	$6,726,799	8	2.7%
6	American Family Insurance	$4,975,128	9	2.0%
7	Auto Club Exchange	$3,394,875	11	1.4%
8	Erie Insurance	$3,218,568	12	1.3%
9	CSAA Insurance Exchange	$3,002,971	15	1.2%
10	Auto-Owners Insurance	$2,933,403	16	1.2%

Lines of business for this table include: 19.1 Pvt Pass Auto No-Fault, 19.2 Oth Pvt Pass Auto Liab, and 21.1 Pvt Pass Auto Phys Damage | Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF COMMERCIAL AUTO				
	Group/Company	**Direct Written Premium ($000)**	**Overall Rank**	**Market Share**
1	Liberty Mutual	$1,798,487	3	4.4%
2	Nationwide	$1,634,230	4	4.0%
3	Auto-Owners Insurance	$1,002,642	8	2.5%
4	State Farm	$672,369	14	1.7%
5	Erie Insurance	$569,262	19	1.4%
6	Farmers Insurance	$516,832	22	1.3%
7	Sentry	$489,161	23	1.2%
8	EMC Insurance	$449,286	25	1.1%
9	Federated Insurance	$430,596	26	1.1%
10	ACUITY A Mutual Insurance Co.	$418,562	27	1.0%

Lines of business for this table include: 19.3 Comm'l Auto No-Fault, 19.4 Oth Comm'l Auto Liab, and 21.2 Comm'l Auto Phys
Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF COMMERCIAL PROPERTY AND LIABILITY				
	Group/Company	**Direct Written Premium ($000)**	**Overall Rank**	**Market Share**
1	Liberty Mutual	$11,005,946	2	5.2%
2	Nationwide	$6,264,186	7	3.0%
3	State Farm	$3,759,929	17	1.8%
4	FM Global	$3,153,451	19	1.5%
5	Farmers Insurance	$2,627,414	23	1.2%
6	Auto-Owners Insurance	$2,016,571	27	1.0%
7	American Family Insurance	$1,231,382	36	0.6%
8	USAA	$1,167,675	39	0.6%
9	Erie Insurance	$1,128,103	40	0.5%
10	Westfield Insurance	$802,726	47	0.4%

Lines of business for this table include: 2.1 Allied Lines (Sub), 2.2 Multiple Peril Crop, 2.3 Federal Flood, 2.4 Private Crop, 2.5 Private Flood, 3 Farmowners MP, 5.1 Comm'l Multi Prl (Non-Liab), 5.2 Comm'l Multi Prl (Liab), 6 Mrtg Guaranty, 8 Ocean Marine, 9 Inland Marine, 10 Financial Guaranty, 11 Med Prof Liab, 12 Earthquake, 17.1 Oth Liab (Occurrence), 17.2 Oth Liab (Claims), 18 Product Liability, 22 Aircraft, 23 Fidelity, 24 Surety, 26 Burglary & Theft, 27 Boiler & Machinery, 28 Credit, 30 Warranty, 34 Oth P&C (State) | Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF WORKERS' COMPENSATION				
	Group/Company	**Direct Written Premium ($000)**	**Overall Rank**	**Market Share**
1	Liberty Mutual	$2,525,898	7	4.3%
2	Texas Mutual Insurance Co.	$1,097,244	15	1.9%
3	Pinnacol Assurance	$623,848	23	1.1%
4	Erie Insurance	$508,175	27	0.9%
5	Sentry	$471,326	29	0.8%
6	Amerisure	$429,072	30	0.7%
7	MEMIC	$399,714	31	0.7%
8	Brickstreet Insurance	$379,696	33	0.6%
9	Nationwide	$372,156	34	0.6%
10	CopperPoint Insurance Companies	$360,551	36	0.6%

Lines of business for this table include: 16 Workers' Comp and 17.3 Excess Workers' Comp
Source: S&P Global Market Intelligence

TOP TEN MUTUAL WRITERS OF ACCIDENT AND HEALTH				
	Group/Company	**Direct Written Premium ($000)**	**Overall Rank**	**Market Share**
1	State Farm	$1,019,195	1	14.0%
2	Liberty Mutual	$152,758	15	2.1%
3	American Family Insurance	$28,700	37	0.4%
4	Nationwide	$25,314	39	0.4%
5	Sentry	$10,939	45	0.2%
6	Federated Insurance	$1,672	50	0.0%
7	Texas Farm Bureau Insurance	$768	58	0.0%
8	Rural Mutual Insurance Co.	$706	59	0.0%
9	Farmers Insurance	$167	71	0.0%
10	North Carolina Farm Bureau Insurance	$138	72	0.0%

Lines of business for this table include: 13 Group A&H, 14 Credit A&H (Grp & Ind), 15.1 Cllct Rnbl A&H, 15.2 Non-Cancelable A&H, 15.3 Grted Renewable A&H, 15.4 NonRnwbl Stated Only, 15.5 Oth Accident Only, 15.6 Medicare Title XVIII Tax Exempt, 15.7 Oth A&H (State), and 15.8 Fed Emp Health Ben | Source: S&P Global Market Intelligence

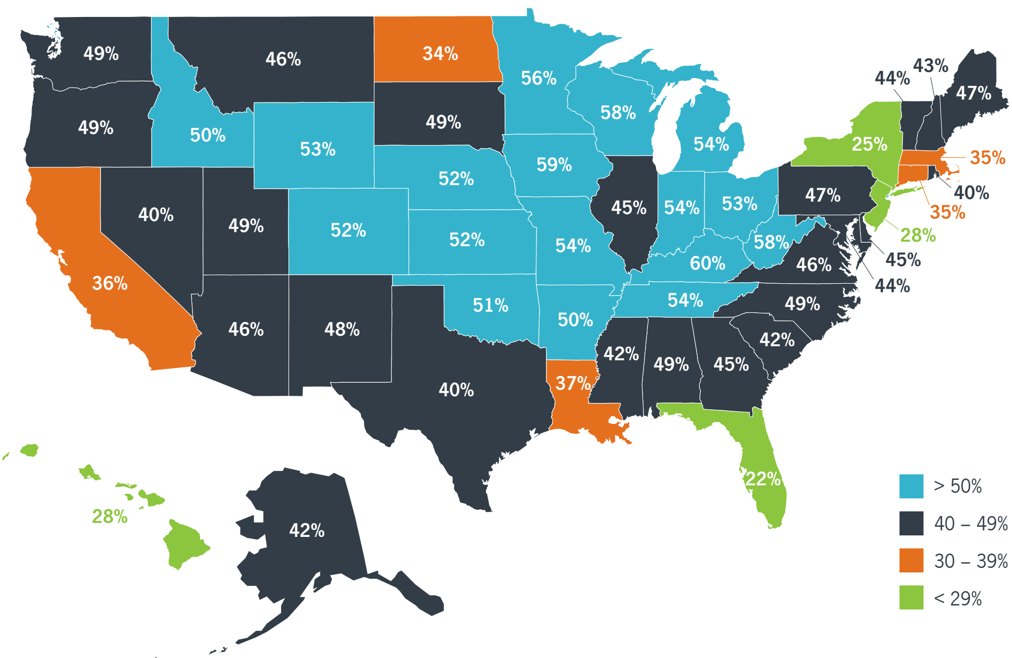
TOP TEN MUTUAL WRITERS OF HOMEOWNERS				
	Group/Company	**Direct Written Premium ($000)**	**Overall Rank**	**Market Share**
1	State Farm	$18,170,243	1	18.4%
2	Liberty Mutual	$6,655,452	3	6.7%
3	USAA	$6,170,558	4	6.2%
4	Farmers Insurance	$5,795,044	5	5.9%
5	American Family Insurance	$3,399,406	7	3.4%
6	Nationwide	$3,184,627	8	3.2%
7	Erie Insurance	$1,675,976	10	1.7%
8	Auto-Owners Insurance	$1,578,657	11	1.6%
9	CSAA Insurance Exchange	$924,000	17	0.9%
10	Amica	$909,196	18	0.9%

Lines of business for this table include: 4 Homeowners MP | Source: S&P Global Market Intelligence

MUTUAL STATE MARKET SHARE (%)

In 2018, mutuals accounted for 41% of the property/casualty market share in the United States, where the stock and other segments had 57% and 1%, respectively. Stock companies make up the majority of the property/casualty market nationally, which in part is driven by mutual companies demutualizing to stock companies in recent years after legislation to permit this process was passed in many states.

Although the mutual segment has a smaller share of the market compared to the stock segment, the mutual segment has a consistent market share presence throughout the United States. Mutuals have the majority of the market share in 17 states and at least 40% market share in 41 states. The states with more mutual company presence are in the Midwest region of the country. In the four states where the mutual segment's market share is less than 30%, premiums are typically written by larger stock insurers such as Travelers, Zurich, The Hartford, and Progressive.



THE DIFFERENCE BETWEEN MUTUAL & STOCK COMPANY COMBINED RATIOS

Mutual insurers have historically operated with combined ratios that are several points above stock insurers. From 2007 through 2018, the average combined ratio of the mutual segment was 100.0 compared to 97.0 for stocks companies. This was true in 2018 as well, with mutual insurers running a combined ratio of 101.1 compared to 97.5 for stock insurers. There are several reasons for this, discussed in turn below.

POLICYHOLDER DIVIDENDS

The overwhelming majority of policyholder dividends are paid by mutual insurers to their policyholders in recognition of their ownership stake in the company. Stock companies pay dividends as well, but generally to their shareholder owners, and they are not included in the combined ratio. The dividend ratio for mutual insurers in 2018 was 1.1% compared to 0.2% for stock insurers.

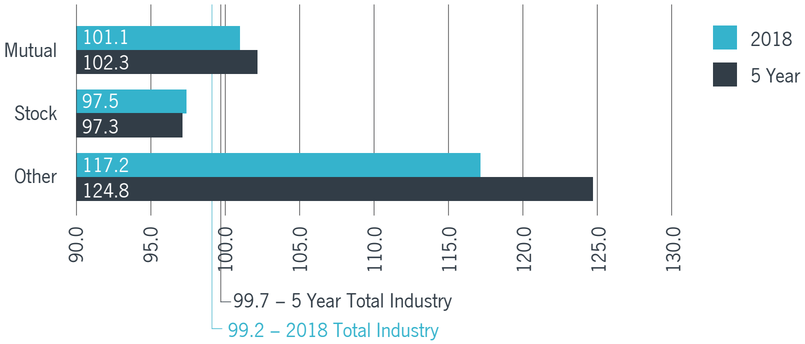
PRICING STRATEGY

Policyholders of mutual companies may also benefit from differences in pricing strategies. Some mutuals, rather than, or in addition to, the payment of dividends to policyholders, tend to temper the pace of rate increases. This translates into greater price stability and lower relative premiums for policyholders. At the same time, a slower pace of rate increase for mutuals will generally lead to loss ratios and ultimately combined ratios that are higher than those of stock companies, which tend to seek rate increases more rapidly and of a larger magnitude. Stock insurers are obliged to operate in this manner because their focus is to maximize returns for their shareholders. Mutual insurers over the long run must operate profitably, of course, but with their primary objective being growth of surplus. Consequently, mutual insurers do not generally face the same degree of immediacy with respect to the need to increase rates that in turn benefits policyholders as the mutual insurer will pay out a higher share of each premium dollar collected from customers.

Note that this does not mean the average cost per claim, i.e., claim severity, is higher for mutuals. It simply means that mutual insurers on average absorb proportionately more losses than stock companies.

COMBINED RATIO (%)

Near-record catastrophe losses impacted the entire property/casualty insurance industry adversely in 2017, pushing the mutual company combined ratio up. Throughout 2018, catastrophe losses have lessened and as a result, combined ratios for mutuals and stocks have decreased. Mutuals' combined ratio for year end 2018 is 101.1, which dropped drastically from the 106.4 they experienced the year prior. Despite the poor catastrophe year, mutuals' combined ratio on a five-year basis is at 102.3. In contrast, the stocks' combined ratio is much lower at 97.5 for 2018 and is similar on a five-year average. Stocks compare favorably to the industry combined ratio of 2018 (99.2%), whereas mutuals exceed the industry average. The mutual segment's combined ratio exceeded that of stock companies by more than 3 points in 2018 and is, in part, the result of several large mutual holding companies ceding premiums from stock subsidiaries to mutual subsidiaries.



BENCHMARK STUDY FOR AM BEST RATINGS

OVERVIEW

Our benchmark study is based upon 628 U.S. property/casualty companies that have been rated by AM Best under the updated Best's Credit Rating Methodology (BCRM) framework that was released in October 2017. The findings consist of groups and unaffiliated single companies. Of the 628 U.S. property/casualty companies, 53% are represented as stock companies, 45% as mutuals and 2% as other. Stock companies that are part of mutual group ratings were counted within the mutual group. Reciprocal exchanges, Risk Retention Group (RRGs), cooperatives, and Lloyds were counted as mutual companies. Companies counted as "other" include trusts, state funds, and non-profit organizations. The study is a result of Aon's ability to track how mutual companies are rated under AM Best's updated criteria. This is based upon ratings as of August 12, 2019.

KEY FINDINGS

The BCRM benchmark study provides deep insight and conclusions regarding how mutuals are rated under the AM Best criteria.

It was found that **85%** of mutual companies are rated "A-" or higher and **93%** have "positive" or "stable" outlook.

The median VaR 99.6 BCAR score for mutual companies is **59%**, 10 points higher than stock companies at **49%**.

90% of mutuals have "Strongest" or "Very Strong" balance sheet strength, compared to **78%** of stock companies.

84%

Mutual and stock companies have similar operating performance assessment distribution with 84% "Adequate" or better assessments.

25%

The median five-year combined ratio volatility highlights that stock companies exhibit 25% higher standard deviation than mutual companies.

47% of mutual companies have "Neutral" or better business profile versus **40%** for stock companies.

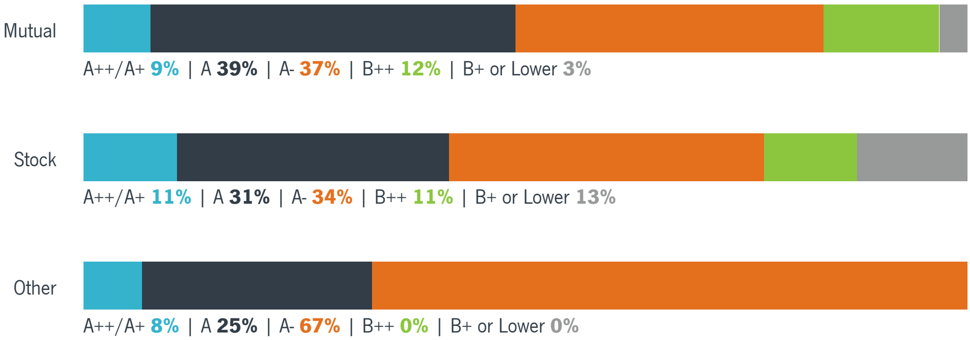
96% of mutuals have "Appropriate" or better ERM assessment compared to **91%** of stock companies.

Only **4%** of mutuals receive a rating lift from group affiliation while **21%** of stock companies depend on this lift.

U.S. PROPERTY/CASUALTY COMPANIES RATING DISTRIBUTION

Out of the 628 U.S. property/casualty companies, the majority are either rated "A" or "A-." Slightly fewer mutuals are rated "A++"/ "A+," with 9% receiving the highest rating, compared to 11% of stock companies. However, more mutuals received an "A" rating than stock companies. Thirty-nine percent of mutuals received an "A" for 2019, compared to 31% of stock companies. It is important to note that 13% of stock companies received a "B+" or lower. This compares to only 3% of mutuals that received a "B+" or lower.

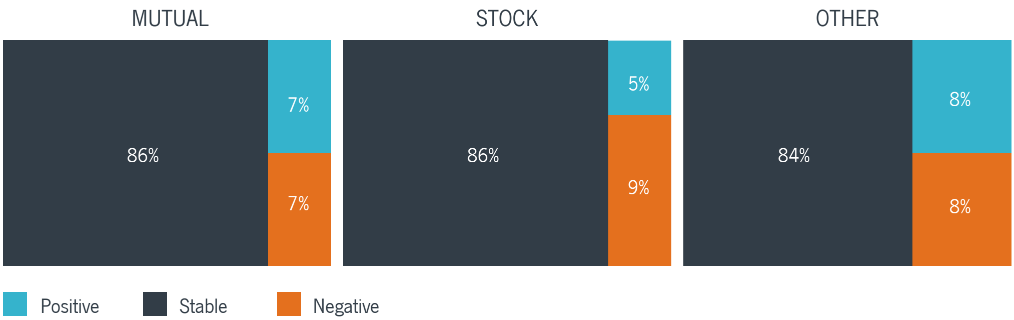
Current Rating



Count: Mutual – 283, Stock – 333, Other – 12

Current Rating Outlook

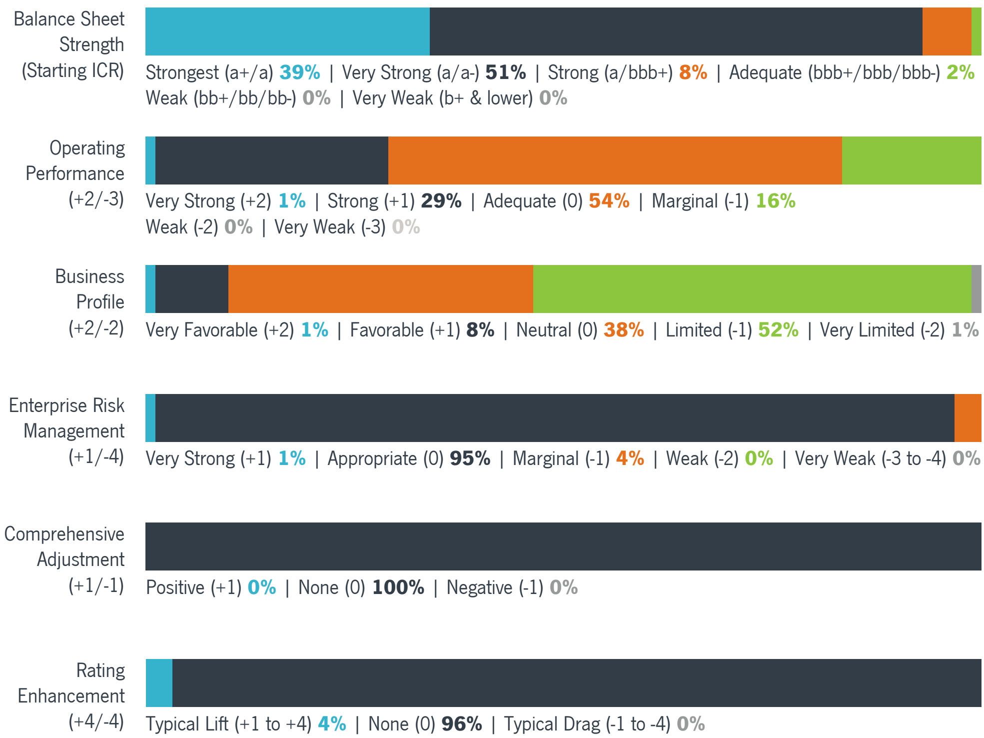
The majority of ratings have a stable outlook, with both mutuals and stocks at 86% and other at 84%. Additionally, 7% of mutual have a positive outlook, compared to 5% of stocks and 8% of other. Conversely, only 7% of mutual companies have a negative outlook compared to 9% of stocks and 8% of other.



BCRM BUILDING BLOCK ASSESSMENTS

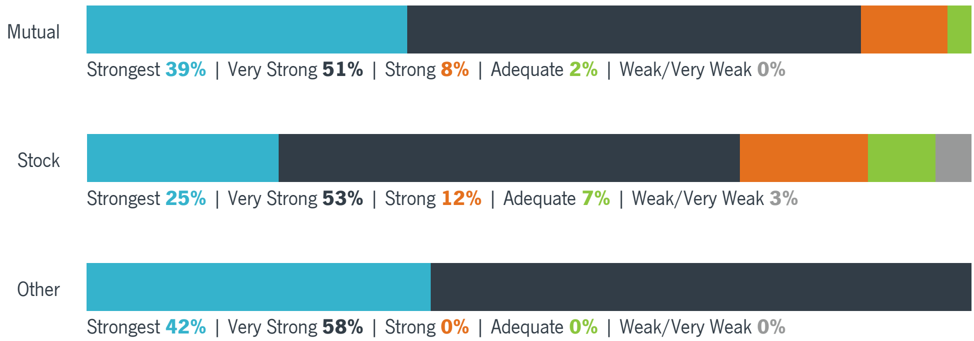
AM Best follows a building block rating approach that assesses individual components and applies positive or negative notching. Balance Sheet Strength sets a base Issuer Credit Rating (ICR) based on the company's BCAR score, key balance sheet measures, and other considerations such as financial flexibility. AM Best will then assess Operating Performance, Business Profile, and Enterprise Risk Management. After these building blocks, AM Best may apply a Comprehensive Adjustment if there is something unique not captured in the first four categories. Lastly, AM Best may apply a rating enhancement depending on the group affiliation before determining the ICR. A company's financial strength rating is a direct function of its ICR.

Fifty-one percent of mutuals have a "Very Strong" Balance Sheet Strength. This results in an initial ICR of "a/a-." The majority of mutuals receive an "Adequate" operating performance. Fifty-two percent of mutuals receive a "Limited" Business Profile. Ninety-five percent of mutuals have "Appropriate" ERM, given their risk profile. Not one mutual has received a comprehensive adjustment. Despite some mutuals having group affiliation, 96% of mutuals do not receive a rating enhancement. This notching approach would result in a final ICR for mutuals of "a-," with an FSR of "A-."



BALANCE SHEET STRENGTH

Balance Sheet Strength is the first building block in the BCRM. Companies receive a “Strongest,” “Very Strong,” “Strong,” “Adequate,” “Weak,” or “Very Weak” assessment depending on their BCAR score, key balance sheet measures (underwriting leverage, asset quality, reserve adequacy, reinsurance, etc.) and other considerations such as holding company financials and financial flexibility. The balance sheet assessment provides a range of starting issuer credit rating’s (ICR) for the analyst to select. Ninety percent of mutual companies receive the “Strongest” or “Very Strong” assessment, which therefore results in 90% of mutual’s starting with an “a+,” “a,” or “a-” ICR. Additionally, no mutuals are considered to have “Weak” or “Very Weak” Balance Sheet Strength.

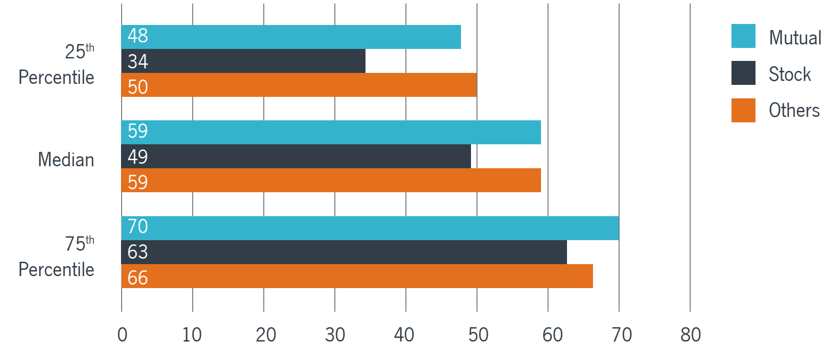


Published BCAR Scores

The primary quantitative tool used to evaluate a company’s capitalization is BCAR. AM Best will calculate BCAR at five different confidence intervals (C.I.): VaR 95, 99, 99.5, 99.6, and 99.8. Each C.I. has different capital factors that reflect 20-, 100-, 200-, 250-, and 500-year events, respectively. AM Best will run a baseline calculation as well as a stressed analysis but only the baseline VaR 95, 99, 99.5, 99.6 scores will be published. The scores provide a starting point for the Balance Sheet Strength assessment.

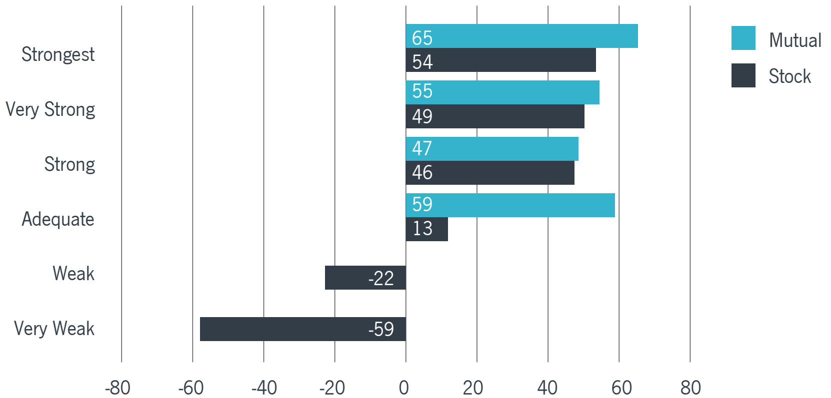
BCAR at VaR 99.6 Percentiles

The most relevant C.I. in the published BCAR output is the VaR 99.6. A company must maintain a BCAR ratio above 10% or 25% to receive a "Very Strong" or "Strongest" balance sheet assessment, respectively. While meeting the BCAR requirement does not guarantee those assessments, most companies are well above 10% and 25% thresholds. Mutuals at all percentiles maintain a significant higher capitalization compared to stock companies. The numbers below reflect all possible Balance Sheet Strength assessments.



Median BCAR at VaR 99.6 by Balance Sheet Strength Assessment

The median BCAR scores for mutuals and stock companies at each Balance Sheet Strength assessment follow a trend that illustrates the two are correlated. Companies with higher BCAR scores tend to receive more favorable assessments. The median BCAR score for stock companies is less than mutuals as stock companies benefit from having more financial flexibility. While the median BCAR score for mutuals with an "Adequate" assessment is higher than some of the other assessments, the limited amount of data points inflates this number, thus highlighting the importance of other key financial metrics in the rating process.

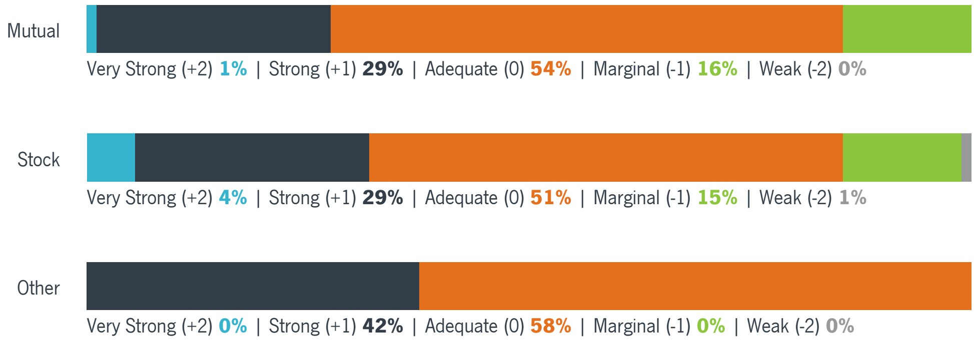


OPERATING PERFORMANCE

Following the Balance Sheet Strength assessment, a company's starting ICR can receive positive, negative, or neutral notching reflective of its Operating Performance. This assessment examines combined ratio, operating ratio, net income, surplus growth, and other performance metrics to determine "Very Strong" (+2), "Strong" (+1), "Adequate" (0), "Marginal" (-1), or "Weak" (-2) notching.

Operating Performance

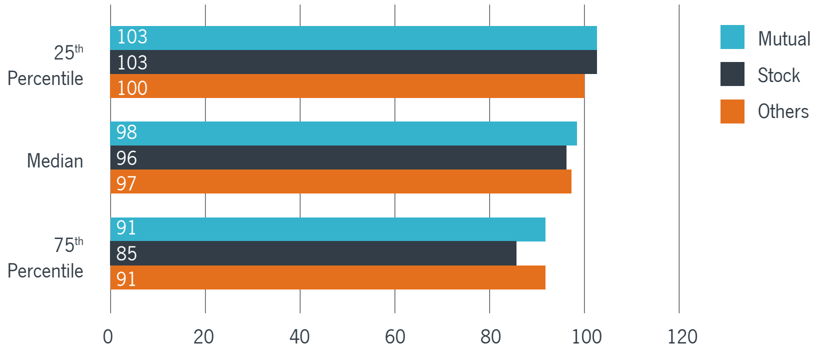
Operating Performance assessments are similar for mutuals and stock companies. Thirty percent of mutuals receive positive notching ("Very Strong" or "Strong") compared to 33% for stocks and 54% receive an "Adequate" assessment compared to 51% of stocks.



Combined Ratio and Combined Ratio Volatility Five-Year Percentiles

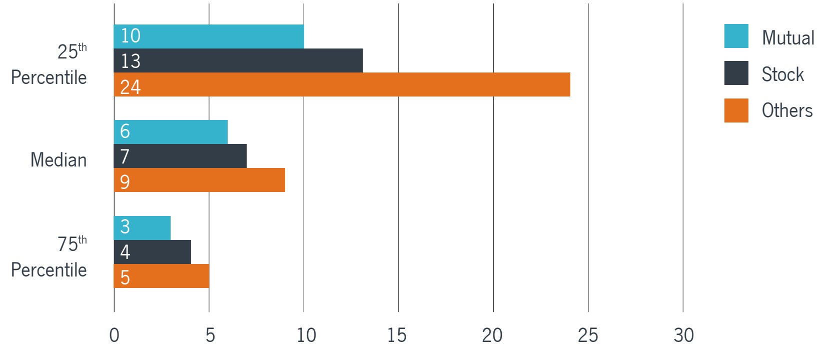
The five-year combined ratio for mutuals and stock companies is similar but separate towards the higher percentile. Mutual companies experience less volatility when examined through all percentiles. The results below reflect all possible Operating Performance assessments.

Five-Year Combined Ratio



Count: Mutual – 283, Stock – 333, Other – 12

Five-Year Combined Ratio Volatility



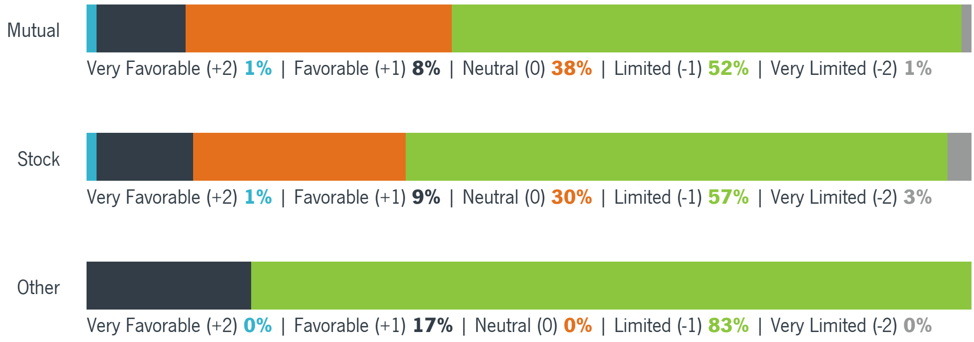
Count: Mutual – 283, Stock – 333, Other – 12

BUSINESS PROFILE

After concluding the Operating Performance review, rating analysts assess the rating unit's Business Profile. Business Profile factors include the following characteristics: Market Position, Pricing Sophistication, Management Quality, Data Quality, Regulatory & Market Risk, Product Risk, Distribution Channels, Degree of Competition and Product/Geographic Concentration. Please note, AM Best has issued a request for comment on new proposed rating criteria for assessing Innovation, which would become a new component of Business Profile.

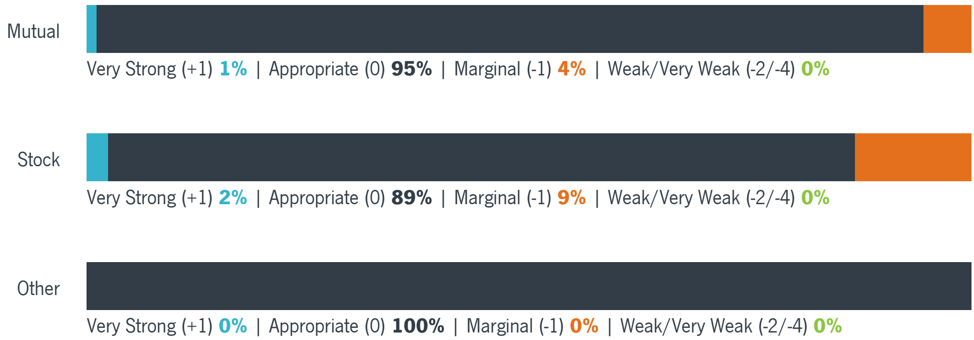
Business Profile Favorability

The Business Profile assessment can result in an increase, decrease, or no change in the respective rating. Forty-seven percent of mutual companies have "Neutral" or better Business Profile compared to only 40% of stock companies. Stock companies are slightly more likely to receive a "Limited" assessment at 57% compared to mutuals at 52%.



ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management is becoming a more prominent factor in AM Best's rating methodology. AM Best evaluates ERM on three major fronts: risk management framework, risk management capabilities considering risk profile, and overall strength of ERM. The analysis of ERM can result in either an increase, decrease, or no change in the respective rating. Ninety-six percent of mutual companies have "Appropriate" or better ERM assessment compared to 91% of stock companies. It is important to note that none of the U.S. property/casualty companies have received "Weak" or "Very Weak" assessment.

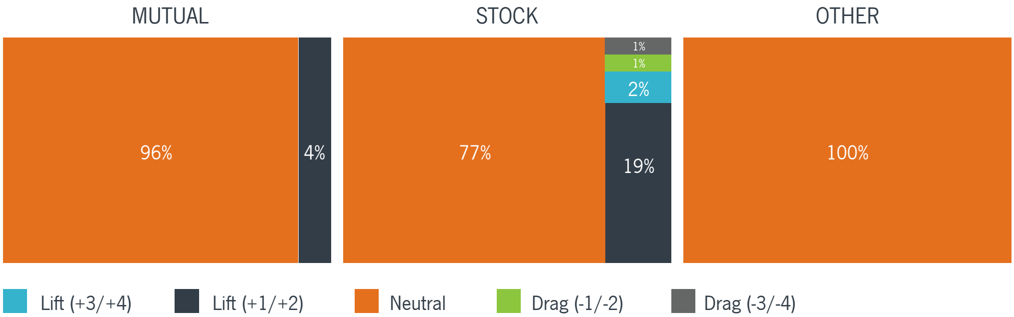


Rating Enhancement

Non-lead rating units that are well-integrated within the organization may receive a notching lift based on implicit or explicit support of the broader organization. Conversely, a non-lead rating unit may be penalized for their association with a weaker holding company and receive a drag. In addition to the Rating Lift/Drag building block, there is also a building block for a Comprehensive Adjustment. Not one company globally in all insurance sectors has received a Comprehensive Adjustment.

Drag/Lift Percentages

Only 4% of mutual companies receive a rating lift from group affiliation while 21% of stock companies depend on this lift. The rating adjustment can be anywhere from +4 notches to -4 notches. While no mutual companies received a +3 or more lift, not one mutual has received a drag.



RATING AGENCY HOT TOPICS

Looking ahead, the industry's future contains both challenges and opportunities. Catastrophe Losses, ERM, Criteria Updates, Innovation and Cyber could have a prolonged impact on individual ratings and on how rating agencies view the insurance industry overall.

Catastrophe Losses

Full-year 2017 and 2018 weather disasters drove the costliest back-to-back catastrophe loss years on record, incurring $237B of insured losses ($653B economic). In addition to hurricane activity, four of the five worst wildfire losses ever recorded occurred during this period. Looking at 2019, rating agencies are closely examining modeling assumptions and performance given the rise in catastrophe severity, including Hurricane Dorian, which reached Category 5 status off the U.S. coast.

Enterprise Risk Management (ERM)

Appropriate ERM provides insurers the ability to respond to natural catastrophes in addition to assessing risk tolerances, managing tail risk events, and accumulations. According to AM Best, downgrades outpaced upgrades in the first half of 2019 for the first time in five years, driven by reassessments of ERM programs. A strong philosophy towards ERM can also help insurers handle exposure to non-weather events, such as the potential non-renewal of TRIPRA and concentration risk as measured by total insured value (TIV), two sources of risk AM Best is keen to quantify.

Criteria Updates

After finalizing criteria updates in July 2019 for insurer ratings methodology, group ratings and hybrids, S&P placed certain issuers and issues Under Credit Observation (UCO) for potential rating changes because of the retooled criteria pieces. All UCOs will be reviewed and acted upon within the next three to six months. Additionally, AM Best is expected to finalize its Innovation criteria next year.

Innovation

Released to much fanfare, AM Best's proposed Innovation criteria is expected to go into effect in Q1 of 2020, when it will evolve from an implicit to an explicit component of the rating process. AM Best has stressed that both technological and non-technological innovation will have a place in the overall scoring.

Cyber

Discussion around cyber insurance has been relatively muted in 2019, but it is still an area being given careful consideration by rating agencies. Few answers are yet apparent to the challenges posed by silent cyber, lack of critical data on third party suppliers, and accumulation potential. Moody's intends to incorporate cyber risk into its existing credit ratings, and AM Best may stress-test cyber risks against company balance sheets.

COMMERCIAL INSURANCE CUSTOMER SURVEY

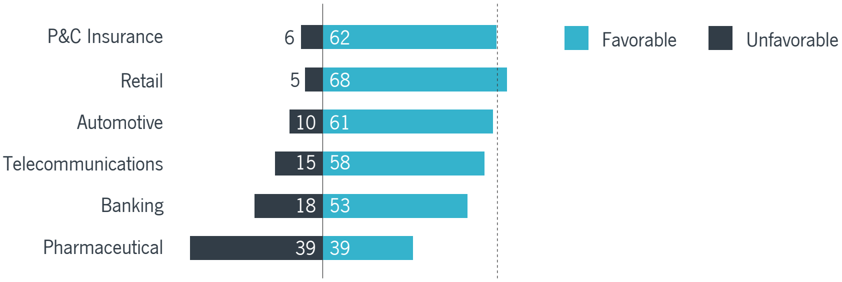
In 2019, NAMIC conducted an opinion survey among commercial insurance customers to gauge their knowledge of and attitude toward both mutual and stock insurance companies. A summary of the survey findings are included in the following pages. While not necessarily about the performance of mutual companies, the commercial customer survey does provide some valuable insight from this more sophisticated insurance buyer community about how they perceive insurance companies.

The commercial insurance customer survey was conducted to provide NAMIC membership with data on the current reputation of mutual insurance companies among purchasers of commercial/business insurance. The study provides a benchmark against which changes in the industry's reputation among commercial insurance buyers can be tracked over time.

The research results are based on a national sample of 552 commercial and property/casualty insurance buyers who are commercial insurance decision-makers, influencers, or recommenders. The study sample was stratified by size, and quotas were established to ensure that the sample would not be skewed to smaller companies and would be more reflective of the commercial insurance market. The survey has a margin of error +/- 6% at the 95% level of confidence.

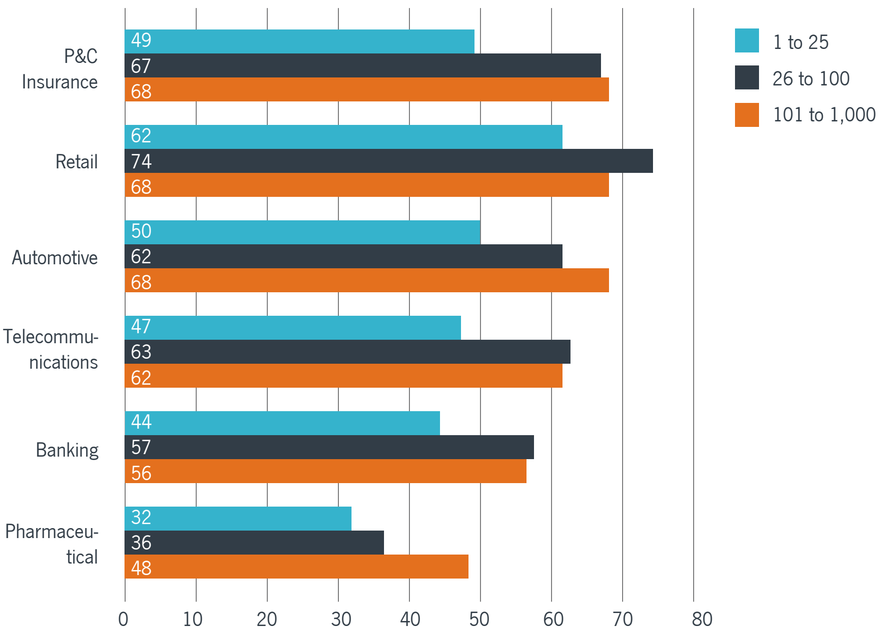
INDUSTRY FAVORABILITY (%)

The commercial property/casualty insurance industry is viewed less favorably than the retail industry among those surveyed. However, respondents viewed the commercial property/casualty insurance industry about the same as the automotive and telecommunications industries, while more favorably than the banking and pharmaceutical industries. Interestingly, smaller-company decision-makers are less favorable toward the commercial property/casulaty industry than their counterparts in larger companies.



Among total commercial insurance decision-makers (n=552)

Very/Somewhat Favorable Ratings by Company Size (%)

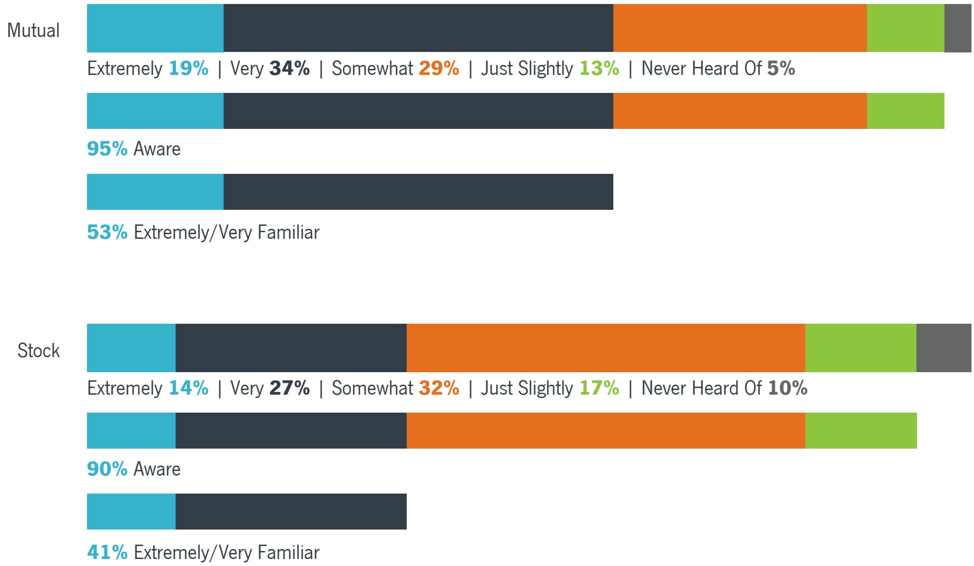


Base sizes by company size: 1-25 n=151, 26-100 n=201, 101-1000 n=200

Differences ±6 percentage points are significant at the 95% level of confidence; Q10. To begin, what are your overall impressions of the commercial property and casualty insurance industry? Are your impressions...?; Q27. What are your overall impressions of each of the industries listed below? Scale: Very favorable, Somewhat favorable, Neither favorable nor unfavorable, Somewhat unfavorable, Very unfavorable.

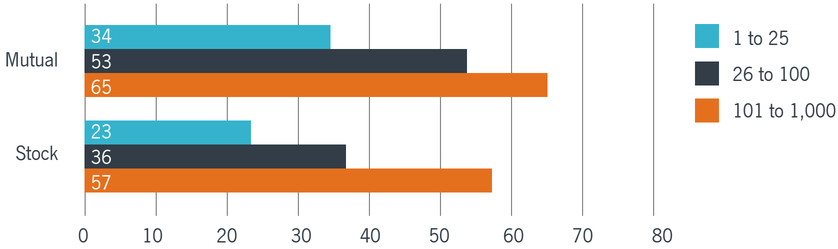
INDUSTRY FAMILIARITY (%)

Mutual insurers in the commercial insurance line of business enjoy a strong reputation among commercial insurance purchasers. Commercial insurance decision-makers are more familiar with mutual companies than with stock companies. Few have never heard of mutual companies (5%) or stock companies (10%). Familiarity increases by company size – lower among smaller companies, higher among larger companies.



Among total commercial insurance decision-makers (n=552)

Extremely/Very Familiar by Company Size (%)



Among total commercial insurance decision-makers (n=552)

Differences ±6 percentage points (total) or ±9 percentage points (subgroups) are significant at the 95% level of confidence; Q16. How familiar are you with each of the following types of commercial property and casualty insurance companies? Scale: Extremely familiar, Very familiar, Somewhat familiar, Just slightly familiar, Never heard of.

ATTRIBUTE RATINGS

Mutual insurance companies are evaluated more favorably than stock companies on two of the top four criteria – fairness and service. Mutual insurers also have the edge in terms of mitigating potential risks, working to keep prices stables, and being socially responsible.

	Mutual (n-524)	Stock (n=498)	Difference (Mutual-Stock)
Always settles claims fairly	**82%**	**73%**	**+9**
Are very strong financially	**89%**	**87%**	**+2**
Work hard to keep prices stable	**77%**	**68%**	**+9**
Have excellent customer service	**84%**	**77%**	**+7**
Help us mitigate potential risks before problems arise	**81%**	**75%**	**+6**
Are very knowledgeable about our industry	**77%**	**75%**	**+2**
Puts profits ahead of customers	**58%**	**62%**	**-4**
Help us identify new risks we may be facing	**81%**	**76%**	**+5**
Are very innovative	**74%**	**76%**	**-2**
Employ the latest technology	**77%**	**80%**	**-3**
Are socially responsible	**63%**	**54%**	**+9**

- Mutual significantly higher
- Mutual significantly lower
- No significant difference

Differences ±6 percentage points are significant at the 95% level of confidence; Q15. For each of the items below, please indicate how important it is when making decisions about choosing a commercial property and casualty insurance company. Scale: Extremely important, Very important, Important, Somewhat important, Not at all important; Q18. To what degree do you associate the characteristics below with mutual insurance companies that sell commercial property and casualty insurance? Scale: Describes very well, Describes somewhat, Describes just a little bit, Does not describe at all; Q19. To what degree do you associate the characteristics below with stock insurance companies that sell commercial property and casualty insurance? Scale: Describes very well, Describes somewhat, Describes just a little bit, Does not describe at all.

IMPACT OF EDUCATION ON RESPONDENT PERCEPTIONS

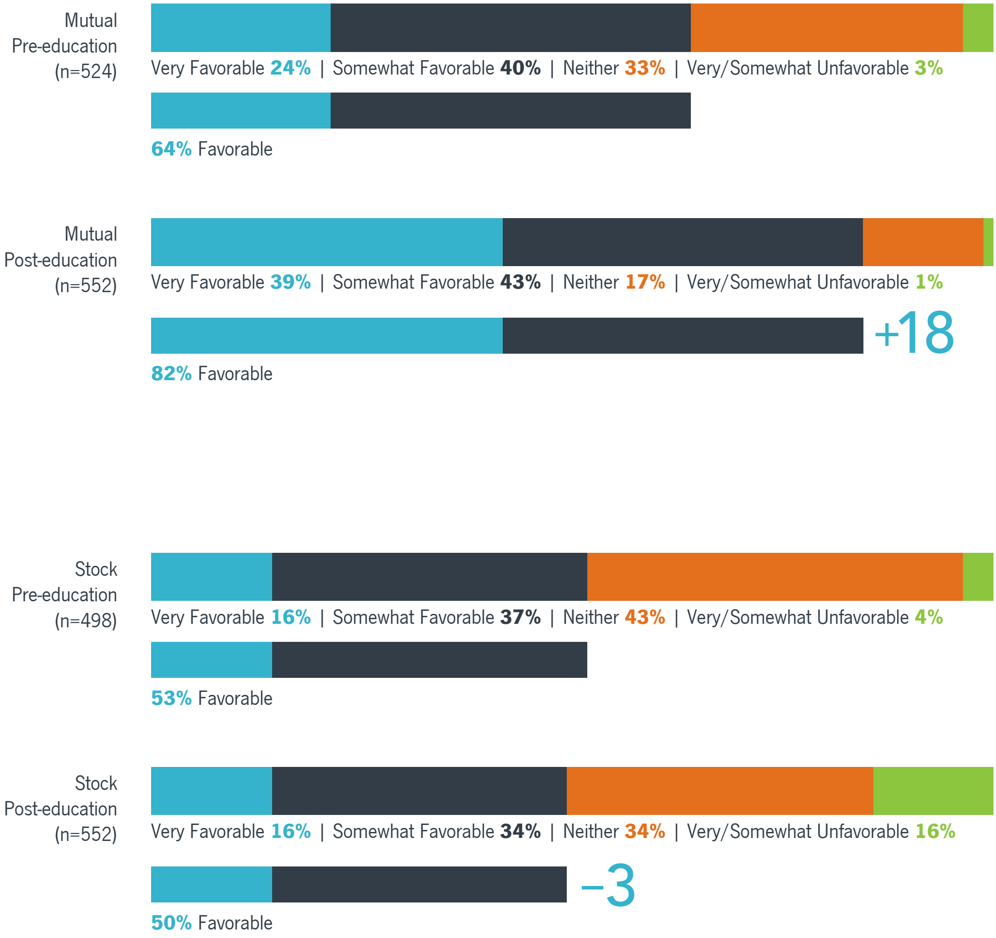
After baseline evaluations of mutual and stock companies, insurance buyers were presented with straightforward definitions of each type of insurance company as shown below:

- A **mutual insurance company** is an insurance company that operates solely for the benefit of its policyholders. Any profits earned by a mutual insurance company are either retained by the company to pay future claims or returned to policyholders in the form of dividend distributions or reduced future premiums.
- A **stock insurance company** is a publicly traded corporation owned by stockholders. The objective of a stock company is to make a profit for the stockholders. The policyholders do not directly share in the profits or losses of the company.

Since all insurance buyers were exposed to these definitions, findings in the post-education section are based on a total sample of 1,001 buyers and compared to pre-education scores among those aware of each type of company.

PRE-/POST-EDUCATION FAVORABILITY

Following the reading of definitions, when the total sample of commercial insurance decision-makers is on the same playing field in terms of information, mutual companies make significant gains. Favorable impressions of mutual companies shift from somewhat favorable to very favorable, while stock companies do not experience any pre-/post-education lift.



Pre: Among those aware of each company type; Post: Among total commercial insurance decision-makers.

Differences ±6 percentage points are significant at the 95% level of confidence; Q17/Q22. What are your overall impressions of mutual insurance companies and stock insurance companies that sell commercial property and casualty insurance? Scale: Very favorable, Somewhat favorable, Neither favorable nor unfavorable, Somewhat unfavorable, Very unfavorable.

PRE-/POST-EDUCATION ATTRIBUTE RATINGS

Following the education of survey respondents, mutuals fare better than stocks on several key attributes. Mutual companies score higher on the price stability attribute, while the score drops further on the one negative attribute of putting profits ahead of customers. At the same time, stock companies score lower on six positive attributes, and higher on the one negative attribute.

	Mutual	Stock
Always settles claims fairly	+3	-10
Are very strong financially	-3	-1
Work hard to keep prices stable	+6	-9
Have excellent customer service	+3	-6
Help us mitigate potential risks before problems arise	+1	-4
Are very knowledgeable about our industry	-	-6
Put profits ahead of customers	-9	+7
Help us identify new risks we may be facing	+1	-6
Are very innovative	+1	-3
Employ the latest technology	-2	-2
Are socially responsible	+5	-6

Post-education ratings significantly higher (+6 Mutual "Work hard to keep prices stable"; +7 Stock "Put profits ahead of customers")

Post-education ratings significantly lower

No significant difference

Differences ±6 percentage points are significant at the 95% level of confidence; Q18/Q23. To what degree do you associate the characteristics below with mutual insurance companies that sell commercial property and casualty insurance? / Q19/Q24. To what degree do you associate the characteristics below with stock insurance companies that sell commercial property and casualty insurance? Scale: Describes very well, Describes somewhat, Describes just a little bit, Does not describe at all.

SMALL-BUSINESS PERCEPTION

One finding of note for mutual insurers involves small-business decision-makers. In the smallest companies, with 1-25 employees and sales of less than $1million, decision-makers show more ambivalence toward insurance companies overall than their counterparts in larger companies. In general, these decision-makers are less knowledgeable about and less favorably inclined toward all insurance companies.

		1–25 Employees	26–100 Employees	101–1,000 Employees
Commercial P&C Industry Reputation (Very/somewhat favorable)		**49%**	**67%**	**68%**
Extremely familiar	Mutual insurance companies	**34%**	**53%**	**65%**
	Stock insurance companies	**23%**	**36%**	**57%**
Feel very favorable	Mutual insurance companies	**52%**	**67%**	**71%**
	Stock insurance companies	**46%**	**54%**	**59%**
Average attribute score (Describes completely)	Mutual insurance companies	**22%**	**28%**	**31%**
	Stock insurance companies	**17%**	**23%**	**28%**
Very likely to recommend	Mutual insurance companies	**78%**	**91%**	**90%**
	Stock insurance companies	**67%**	**77%**	**79%**

Differences ±9 percentage points (subgroups) are significant at the 95% level of confidence.

MARKET ANALYSIS METHODOLOGY & TECHNICAL NOTES

GENERAL

Insurance companies were assigned to one of three segments based on an internal review conducted by NAMIC and Aon, classifying each insurer as a policyholder-owned “mutual,” a shareholder-owned “stock,” or “other.” Using financial data for groups and unaffiliated singles as provided by S&P Global’s Market Intelligence and NAMIC, two types of aggregate metrics were calculated for each segment and the three segments as a group: sums for dollar-denominated fields such as premiums and cumulative metrics for ratios such as the net commission expense ratio.

For example, in calculating the cumulative loss and LAE ratio for the mutual segment, the sum of all mutuals earned premium was divided by the sum of all mutuals loss and LAE incurred, where no special weighting was given based on size of a company. This approach allows for a more holistic view of each respective segment.

FURTHER COMMENTS ON NAMIC’S AND AON’S INTERNAL REVIEW OF COMPANY CLASSIFICATION

Previously, the segment was based on reported NAIC ownership structure. For 2018, NAMIC and Aon carefully reviewed each company and classified each company as a mutual, stock, or other based on the company’s operation. For example, Liberty Mutual’s NAIC ownership structure is reported as a “stock” company; however NAMIC and Aon recognized that Liberty Mutual is a policyholder-owned insurer and therefore classified Liberty Mutual as a “mutual.”

OTHER NOTES

Aggregate combined ratios are the sums of aggregate expense ratios, aggregate loss and loss adjustment expense ratios, and aggregate dividend ratios, rather than weighted averages. Similarly, aggregate operating ratios are the sums of aggregate combined ratios and aggregate investment ratios.

Five-year data is representative of all companies operating in 2018. This data will not include any companies that were removed from S&P Global’s Market Intelligence database. For example, Merced P&C will not be included in any of the five-year data even though it operated up until 2017.

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