EY Global Mutual Insurance Market Scan, 2024

Leveraging the principles of mutual differentiation in a dynamic market

Building a better working world

Executive summary

Mutual and cooperative insurers remain a critical pillar of the global insurance industry, offering vital protections to individuals, families, businesses and communities around the world. Mutuals will only become more important as new risks emerge, presenting more potentially severe threats. Mutuals can also provide leadership as the industry is increasingly challenged to balance profitability with its noble purpose of providing protection.

This report covers the findings of EY's most recent research into the global mutual insurance sector, conducted in partnership with the International Cooperative and Mutual Insurance Federation (ICMIF). Beyond the snapshot view of the current mutual insurance landscape, the following pages highlight megatrends and major business drivers shaping the market today.
Those forces include:

- Mounting cost pressures
- Intensifying regulatory scrutiny
- Rising customer expectations
- The need for digitization
- Capital strategies for investing in growth

We also provide recommended actions for mutuals looking to balance their traditional purpose with the imperative to maintain financial strength. Those actions include:

- Enhancing engagement models to maximize the benefits of mutuality for members, considering best allocation of profit return, including enhanced value propositions, loyalty discounts, dividends, education and community programs
- Upgrading the technology infrastructure as the foundation for innovation in a data-driven and digital world, where generative artificial intelligence (AI) is poised to play a transformative role across the industry
- Embracing leading practices for cost management, moving to leaner and more flexible cost structures where appropriate to protect the mutual business model and to deliver for members in their times of need
- Enriching the portfolio of offerings through digitization, personalization and loss prevention to reflect the evolving needs and preferences of members
- Enhancing the employee value proposition to attract younger workers and bridge a growing talent gap as experienced workers retire

Defining our terms: mutual and cooperative insurers

For this report we define "mutuals" and "cooperatives" as organizations that are owned by, governed by and operated in the interests of their member policyholders, even if their legal status may not be classified as such in national laws. These include limited companies owned by people-based organizations, fraternal benefit societies (fraternals), friendly societies, Takaful providers, reciprocals, non-profits, exchanges, discretionary mutuals, protection and indemnity (P&I) clubs, community organizations, and foundations.

Extending the definition in this way has enabled us to include in our research all organizations that operate in line with mutual cooperative principles without being restricted by the various legal definitions in place across the globe.

The principles of mutual differentiation highlighted on the following pages were first outlined in our previous study, completed in 2021, which aimed to identify what sets mutual and cooperative insurers apart from stock carriers. Specifically, we explored how mutuals can devise and operationalize purpose-led strategies as a means to differentiate their brands, win market share and accelerate growth. In 2024, we have refreshed and deepened our insights on the mutual sector.

Overall, this year's findings confirm a strong belief that mutuality provides an essential point of differentiation. However, its extent and sustainability are up for debate, given cost and profitability pressures, regulatory trends and other market forces. Increasing consumer skepticism toward large corporations (and financial services firms in particular) provides even more reason to believe that mutuality will continue to provide a competitive advantage. Thus, the challenge for most mutuals is likely to be one of tactical execution, including maximizing the impact of capital returned to members. Doubling down on mutuality's competitive advantage is a viable strategy, provided mutuals and cooperatives can navigate some of the formidable challenges facing the industry as a whole. Choosing the right investments to improve their overall effectiveness and efficiency will also help mutuals unleash innovation and growth.

EY's purpose of building a better working world aligns closely with the mission of the mutual insurance sector. We are delighted to partner with ICMIF and proud to serve many mutual and co-operative insurers worldwide in providing unique value for their members. We hope you find the perspectives and insights on the following pages to be helpful.

About the EY-ICMIF research

In July 2024, EY conducted an online survey of more than 100 executives from mutual insurers around the world and face-to-face interviews with approximately 20 more mutual leaders. Extensive primary research on publicly available information (both qualitative and quantitative) provided further insight into the trends and opportunities that matter most to mutuals.

Survey respondents included representatives from a balanced mix of mutuals.

Regions:
Africa, Americas, Asia, Europe and the UK, and Oceania.

Line of business:
Property & casualty (P&C), life and composite insurers

Size:
by gross written premium (GWP)

Very large: > $5 billion

Large: $1 billion-$5 billion

Mid-sized: $50 million-$1 billion

Small: < $50 million

> "Mutuality's competitive advantage provides a viable strategy for growth, provided mutuals and cooperatives can navigate some formidable challenges.

About ICMIF

Focusing on the key areas of mutuality, sustainability and business transformation, ICMIF's networking and business intelligence activities leverage the knowledge, competencies and experience of its global network of member-owned and purpose-led insurance companies across 60+ countries.

Through its influence work, ICMIF represents the interests of the global mutual/cooperative insurance sector, supporting key stakeholders around the themes of resilience, disaster risk reduction, sustainable development and responsible investing.

For more information, visit icmif.org.

The four principles of mutuality

Through research, experience and direct engagement with many high performing mutual insurers worldwide, EY has identified four fundamental principles that distinguish mutuals from standard insurance companies. As you'll see on the following pages, these principles inform both strategic decision-making (e.g., where to direct finite resources) and define operational priorities for mutuals.

Principle 1:

Prioritizing purpose-led strategies, rooted in long-term thinking and value, over profitability

In an increasingly volatile world with declining trust in financial institutions, mutual insurance executives believe that mutuality can provide a clear competitive advantage. However, mutual insurers continue to underperform stock carriers in terms of both loss and expense ratios. The lagging position is driven in part by mutuals' commitment to pricing stability and claims flexibility and their willingness to protect vulnerable members (which often causes them to bear greater risks).

Long-term trends, particularly the impact of climate change in the P&C market, mean strategic and integrated actions will be required across government bodies, insurance companies and other stakeholders to develop affordable risk management solutions. Because macro-solutions require long-term thinking and a prioritization of value over profitability, mutuals are ideally placed to provide purposeful leadership, particularly in terms of public-private collaborations. However, mutuals also need to find a path to future profitability, which may include enhanced risk selection and personalization, in service of long-term financial stability to their members.

Principle 2:

Owner and member engagement models that are unique from customer focus

Owner centricity is how mutual carriers can distinguish themselves from even the most customer-friendly stock carriers. Annual general meetings (AGMs) are often the foundation for engaging owners and members and involving them in decision-making. However, our research confirmed that mutuals can – and should – do more in this area, particularly since increased engagement can lead to positive business outcomes, including premium growth.

Principle 3:

Creating value for core and peripheral segments via growth and innovation

No two mutual carriers are alike, but many focus on segments underserved by general insurers (e.g., rural communities). Globally, there has been significant consolidation of family-owned and smaller agricultural businesses, presenting a strategic challenge for mutuals specializing in this sector. But all mutuals stand to gain by defining their core segments for today and tomorrow and developing the products that provide more value to these cohorts.

There is ample product innovation taking place across the sector, with smaller mutuals most willing to customize products. Moving forward, mutuals will need to seek the right balance between tailoring products to meet their customers' unique needs and ensuring their own commercial viability. This may include non-traditional insurance products and participation in larger public-private partnerships (e.g., to share in climate change risks, bundling insurance with financial solutions, micro-insurance and broader community services).

Principle 4:

Providing service and support through social, economic and environmental change

Our research points to the significant impact mutuals have on the environmental and social agenda. That impact is centered on their ability to help members prevent losses and support them in times of need and crisis. Many community support and disaster relief initiatives are smaller scale and only newsworthy on the local level. For that reason, they don't make national headlines. Mutuals can do more to promote their efforts and educate the public on their positive impact. In doing so, they will create a virtuous circle of community and commercial value – providing necessary services to their customers and enhancing their own bottom lines. In this sense, they can do well by doing good, in direct alignment to their missions.

Snapshot of the mutual market: key findings from our research

As revealed by our research, the current state of the mutual insurance industry presents both areas of concern and upside opportunities around the world.

1 Rising market share, all-time high premiums and stronger growth than stock carriers

According to the latest available numbers from ICMIF, mutual insurers held 26.3% of the global market share in 2022, up from 26.0% in 2021. More than 4,700 mutual insurers collectively wrote US$1.41 trillion in insurance premiums in 2022, including US$661 billion in life and an all-time high of US$748 billion in P&C premiums. Growth rates in recent years have been higher for mutuals than the insurance sector at large.

After a small decline in global gross premium from 2021 to 2022, mutuals grew gross premium by roughly 14% on average in 2023 (a compound annual growth rate of 5% for the last five years) compared to approximately 9% for stock carriers (a CAGR of 3%).

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In recent years, mutuals’ growth rates have surpassed the insurance sector at large.

4,700

number of mutual insurers, globally

US$1.41 trillion

premiums written by mutuals in 2022

Life: US$661 billion

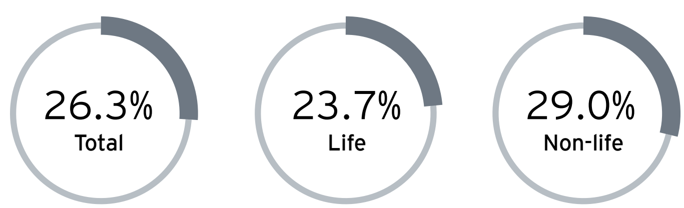
P&C: US$748 billion

Growth in gross written premiums, 2023:

14%
Mutuals (5% CAGR)

9%
Stock carriers (3% CAGR)

Global mutual/cooperative market share



Source: ICMIF

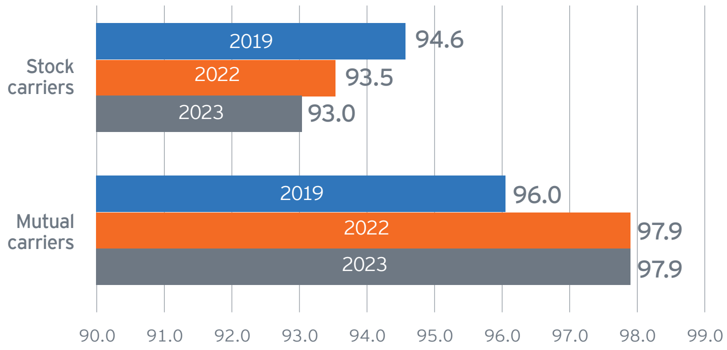
2 Combined ratios on the decline

Across the last five years, mutuals' average combined ratios have lagged stock carriers by approximately 5% points. Mutuals pay out a higher proportion of claims, with an average loss ratio 4% points higher than stock carriers and expense ratio 1%-point higher. The COVID-19 pandemic seems to have accelerated this divergence; stock carriers have marginally improved their combined ratios since 2019, while mutuals have seen theirs deteriorate.

As combined ratios in the industry head towards 100%, with inflationary effects expected to further impact loss ratios, mutuals must find the balance between doing the right thing for their members and supporting them in their time of need, while maintaining a profitable book to ensure long-term financial stability for all stakeholders.

Profitability comparisons are more challenging for life mutuals. Stock life insurance companies often target higher ROE figures as a measure of profitability to attract and satisfy shareholders. Publicly traded life insurers in the United States have historically aimed for ROE in the 8-12% range, though this can vary widely depending on economic conditions and individual company performance.

Combined ratios



Source: EY analysis

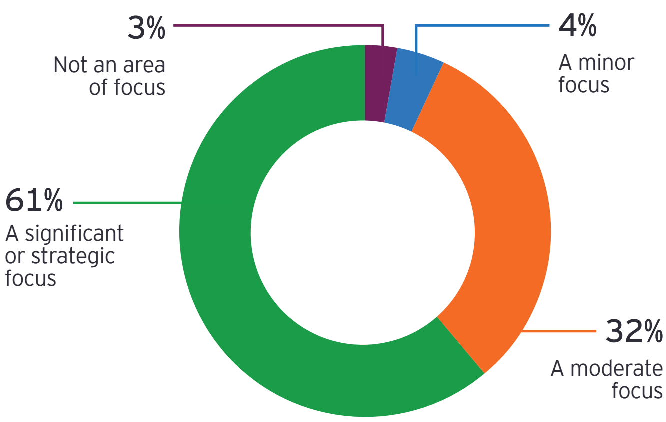
3 Increased focus on profitability and cost management

Nearly 70% of our survey respondents flagged profitability as a significant focus or strategic priority.

That helps explain why a similar proportion of firms (69%) have taken proactive measures to contain costs in the last two years. With both expenses and claims losses trending in the wrong direction, it's no surprise that firms are focused on optimizing their cost structures.

Executive interviews revealed the breadth of approaches and the extent to which mutuals see profitability in context. Some mutuals are focused on managing operational costs (e.g., via straight-through processing, GenAI deployments). Others are looking to reduce commissions, exploring agency models or evaluating partnerships with other mutuals to address costs associated with ESG and climate risk. Still others are planning little to no action.

To what extent has your organization shifted focus towards profitability in recent years?



Source: ICMIF 2024 Global Mutual Market research

WHAT MUTUAL EXECUTIVES SAY:

> "If we focus on taking care of people beyond the generation of economic value, trust in our service is strengthened and the business also improves. Economic value is not an end in itself, but a consequence of broader, more human, goals.

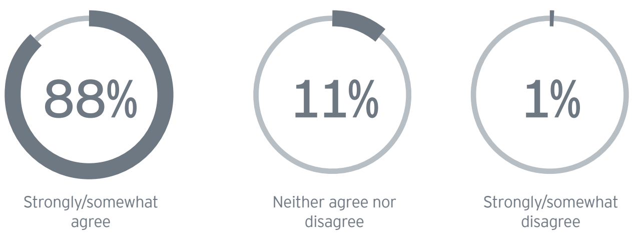
> "We need to run our business well so we can be there in another 100 years.

4 Consensus regarding mutuality as a value driver and differentiator

A full 88% of our survey respondents said their organization prioritizes a purpose-led strategy, rooted in long-term thinking and value, over profitability. Interestingly, very large mutuals (i.e., those with GWP over US$5 billion) and those based in Asia are least likely to say they are purpose-led, though 70% of respondents from these organizations still agreed.

Overall, 79% of the mutuals we surveyed agreed that mutuality principles will continue to provide medium- to long-term competitive advantage against publicly listed insurance carriers. Our executive interviews confirmed the consensus that mutuals are better equipped to take a long-term view (because they're not beholden to shareholder returns) and that long-term thinking offers differentiation.

As a mutual, we are driving a purpose-led strategy that is rooted in long-term thinking and value, over profitability.



Source: ICMIF 2024 Global Mutual Market research

Executives skeptical about purpose-led strategies often note that members don't necessarily understand mutuality or recognize its benefits. Many note that the general lack of understanding of mutuality among consumers dilutes the competitive advantage of the sector. That's why enhancing member offerings, engagement and understanding should be a key priority for all mutuals.

WHAT MUTUAL EXECUTIVES SAY:

"Mutuals must promote differentiation by articulating concrete advantages for stakeholders.

"We believe that the only way to respond to our commitments responsibly is by setting goals that transcend the business and consider people from a comprehensive perspective.

5 The importance of member-centricity

A full 90% of our survey respondents said their organization is truly member/customer centric. That's as it should be. However, our interviews revealed that there has been only limited innovation in the member engagement space. We believe this is an area of opportunity for mutuals to drive awareness of the benefits of mutuality and strengthen existing customer relationships.

Engagement is broadly viewed as a key point of strategic differentiation. One North American cooperative executive we interviewed noted that member-to-member or B2B2C (e.g., through credit unions, farm representative organizations, housing cooperatives) was the highest growing portion of the firm's portfolio. Other interviewees observed that member engagement is limited to a poorly attended annual meeting. One mutual insurer executive told us that, in a recent survey, only 7% of members thought that being a member/owner was important to them.

90%

mutual executives who say their organization is member/customer centric

Source: ICMIF 2024 Global Mutual Market research

WHAT MUTUAL EXECUTIVES SAY:

"Our whole strategic plan is premised on trying to recreate the value of mutuality in the marketplace today with member experience and member value.

6 Commitments to product and service customization

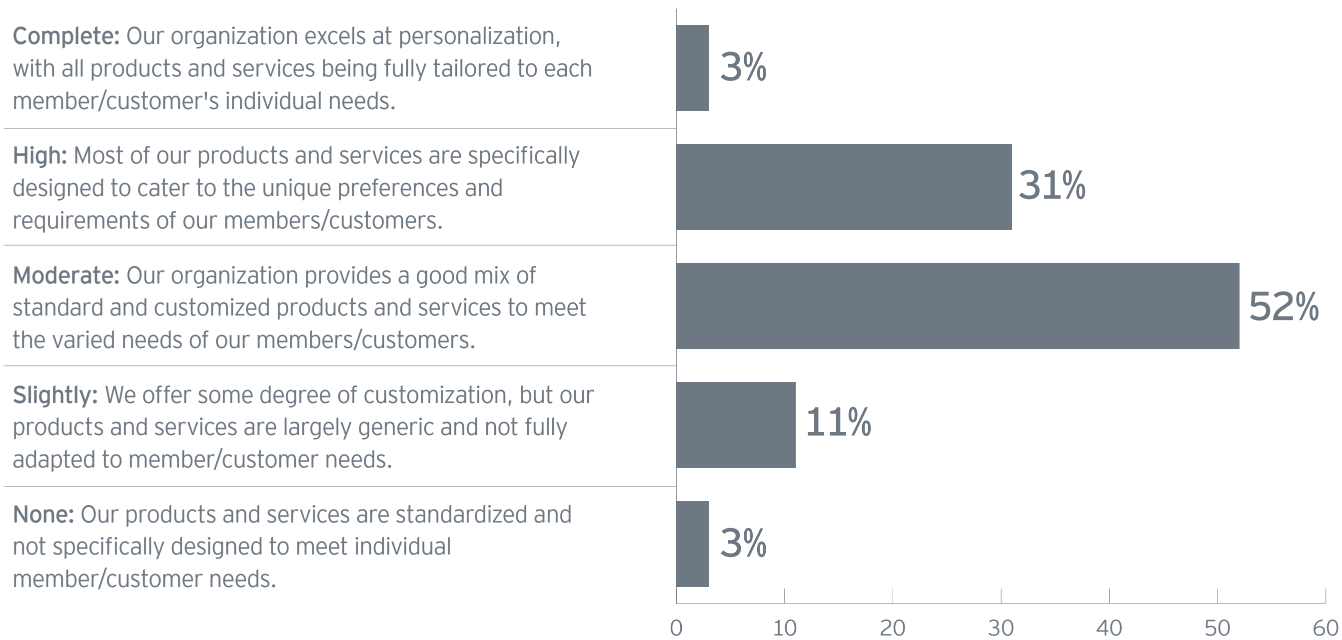
Customizing products and services to cater to the unique preferences and requirements of the members/customers is common within the mutual insurance sector, as well as being increasingly prevalent with stock carriers. The vast majority (86%) of our respondents said their firms offered some level of customization, with just over half (52%) offering a moderate degree.

The degree of customization is largely a function of organizational size: 55% of smaller mutuals offer a high degree of or complete customization in their products and services, compared to only 28% of very large and 20% of large mutuals. In our market engagements, we have observed some small carriers making relatively minor product modifications that undercut their own profitability, a manifestation of their commitment to putting their members' needs first.

WHAT MUTUAL EXECUTIVES SAY:

> “
> We are not necessarily developing a bunch of new products, but as we assess the market, we are staying closer to our core offerings.

Level of product customization



Source: ICMIF 2024 Global Mutual Market research

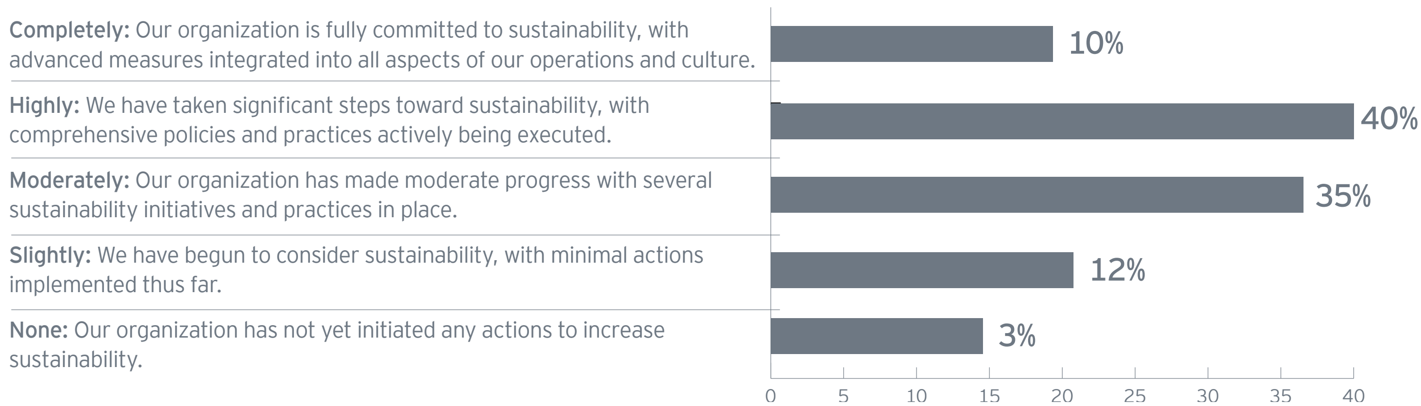
7 Embracing ESG and sustainability

Over the past decade, insurers across the globe have embraced environmental, social and governance (ESG) policies. In some cases, regulatory shifts have accelerated the pace of ESG product development and other activities. A full 87% of mutuals have taken at least moderate steps to become more sustainable.

ESG speaks to the heart of the value proposition for many mutuals, particularly property and casualty (P&C) carriers, which were among the first companies to acknowledge climate change. The social aspect of ESG is arguably where mutuals offer the greatest differentiation relative to the insurance sector at large, alongside differences in corporate governance.

According to a 2023 survey of ICMIF member firms, a grand total of $1.03 trillion in investments were aligned to sustainable investment frameworks, representing 78% of mutuals' investable assets and an increase of 2.4% from the previous year. Looking to the future, many mutuals within Europe have aligned their investment sustainability goals with the Paris Agreement, committed to reducing carbon emissions from their investments by 50% by the year 2030.

To what degree has your organization taken steps to be more sustainable?

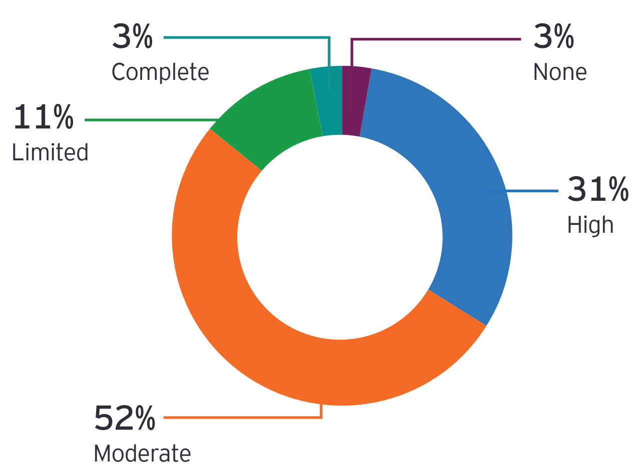


Source: ICMIF 2024 Global Mutual Market research

8 Loss prevention

Loss prevention strategies, both proactive and reactive, are especially important to the mutual insurance model, which emphasizes community support and shared responsibility among members. Thus, it's no surprise that 83% of our survey respondents reported having loss prevention strategies (both proactive and reactive) integrated to at least a moderate extent into their operations. Among that group, 30% of are highly engaged in proactive and reactive loss prevention, with comprehensive programs and timely responses to incidents.

Level of product customization:



Source: ICMIF 2024 Global Mutual Market research

9 Navigating talent and workforce challenges

Like other insurers, accessing all the talent they need is a significant challenge for many mutual insurers. Still, they recognize the value of having a highly skilled and engaged workforce and see the advantage of mutuality in attracting employees.

More than half (52%) of mutuals plan to increase staff during the next 12 months, with the greatest growth expected in technology, underwriting and claims functions. The highest turnover will likely occur in distribution and customer service roles. Given that labor costs are a major component of expense for mutuals, accounting for roughly half of their expenses, generating strong returns on their investments is talent is key to future success.

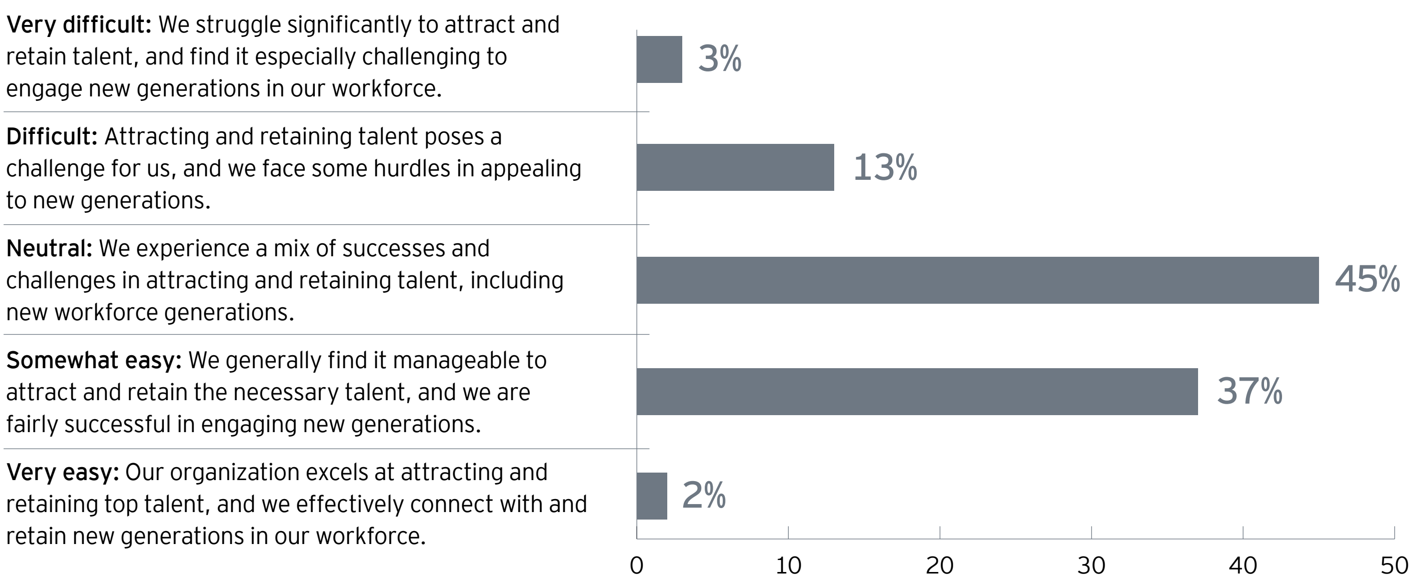
Only 10% of mutuals are planning to decrease their number of employees. Automation is the most common reason companies plan to reduce headcount during the next 12 months, followed by reorganization.

WHAT MUTUAL EXECUTIVES SAY:

> "Employees are attracted by the mutual values.

> "Remember: our mission is to protect the property, health and financial security of your neighbors. It gives meaning to work.

How easy it is for you to attract and retain the talent you need, including new generations of workers?



Source: ICMIF 2024 Global Mutual Market research

Balancing profit and purpose: how mutuals are negotiating a dynamic insurance landscape

Collectively, the findings of our survey reflect the turbulent market landscape that all types of insurers, including mutuals and cooperatives, face today, including:

- Mounting cost pressures
- Intensifying regulatory scrutiny
- Rising customer expectations
- The need for digitization and personalization
- Accessing capital for growth investments

The net effect of these market drivers is making it more complex and challenging to strike the right balance of purpose and profits. For instance, differences in pricing strategies help explain both mutuals' recent market share gains and premium growth, but also their declining combined ratios. Mutuals have chosen pricing stability and are therefore slower to increase prices, even in a hardening market. Stock carriers have been more aggressive in raising their rates. These decisions have likely contributed to relatively poor underwriting in recent years. Further, the outsized impact of US-based firms on global financial results (especially relative to premium) should be taken into account, as highlighted by a recent NAMIC paper.

Similarly, higher combined ratios reflect mutuals' strategies; the willingness to provide protection to vulnerable people in service of a greater positive societal impact is part of the organizational DNA at many mutuals. A demonstrated willingness to accept underwriting risks and, ultimately, lower performance is also relatively common.

Those commitments are not universally held, however, if only because mutuality means different things to different organizations, as our executive interviews made clear. Profitability is vital so mutuals can be there for members in times of need and to enable financial security for their stakeholders. That is fundamentally different from stock insurers' priority of maximizing shareholder value. But profitability still counts for mutuals.

WHAT MUTUAL EXECUTIVES SAY:

"People before profit is widely misinterpreted. Philanthropy and mutuality are not synonymous.

"Mutuality is about helping each other and not just profit. However, at the end of the day, the company must be profitable.

"It's increasingly difficult to differentiate based on mutuality when convenience trumps everything.

Mounting cost pressures

Mutuals are facing a variety of cost pressures, starting with claims losses, which continue to account for the majority of insurers' costs. In all of these areas, members are going to turn to mutuals for the protections they need, which may exacerbate the cost impact of these trends on mutuals' bottom lines.

Climate change has altered global weather patterns leading to more frequent and severe extreme weather events that traditional risk prediction methods can't model accurately. Beyond clouding future prospects for P&C carriers, climate risks have created a massive global protection gap for all types of insureds.

Catastrophic claims, globally

2023: **$108 billion**

Source: Swiss Re

The advanced tech in modern vehicles (e.g., sensors, cameras) cause higher repair costs and ultimately higher average costs per claim. Inflation costs are having the same effect, while supply chain issues are forcing insurers to pay for car rentals for extended periods of time.

Health insurance claims have been on the rise, too, due to aging populations and chronic diseases (e.g., diabetes, heart disease and cancer). The cost of specialty drugs and claims related to mental health (e.g., depression, anxiety, and stress-related disorders) are also increasing.

After decades of increasing life expectancy in many developed countries, longevity gains have plateaued or even declined because of COVID-19, the opioid crisis, obesity and other public health challenges. For some life mutuals, these trends have had a significant impact on actuarial assumptions and profitability.

The general liability insurance landscape has seen significant turbulence in response to the rising frequency and severity of claims, which are largely driven by increased litigation, surging health care costs and regulation exposures (e.g., per- and poly-fluoroalkyl substances). Premiums have risen 6-7% as a result.

Similarly, proliferating cyber attacks have led more businesses to seek stronger protections. That's been a positive force for growth, but claims costs have risen faster than premium volumes, underscoring the need for enhanced underwriting.

With profitability pressures being felt across the industry, it appears stock carriers have been more successful in managing costs in recent years. While mutuals are right to stand by their long-term decisions, consideration must be given to actions to drive profitability improvements to protect the long-term interests of members.

ANNUAL CYBER PREMIUMS

2015: **$24.4 million**

2023: **$472 million**

184%: average loss ratios for cyber insurance loss, 2020-2022

Source: Insurance Bureau of Canada

8.1%: YOY increase for vehicle parts, maintenance and repair costs in Ontario, Canada

Source: Financial Services Regulatory Authority of Ontario

Intensifying regulatory scrutiny

The insurance sector is one of the most highly regulated fields, with carriers subject to laws, rules and guidelines at the international, national and local levels. Regulators around the world are seeking increased consumer protection and ethical market conduct, with insurers required to provide clear and transparent information about products, fees and policyholder rights. On one hand, consumer protections would seem to align closely to mutual principles. On the other hand, this is seen by some as a threat to mutuals, as overall increases in ethical standards in the industry erode the relative differentiation of mutuals as putting people before profits. Some regulation (e.g., EIOPA's Insurance Distribution Directive) with requirements for enhanced product governance and value for money push companies toward customers' interest. But mutual executives believe significant differences will endure in customer-centric behaviors driven by an inner mutual purpose versus those inspired by profit objectives.

New standards for financial reporting and market structures have changed the accounting for insurance contracts, with a significant impact on how insurers report their financial performance. Today this often means longer processes and more effort required for compliance. These changes likely have a disproportionate effect on mutuals, in particular smaller firms that lack the finance and actuarial skills to navigate enhanced reporting across both P&C and lifelines will feel the greatest strain.

Stricter solvency and capital requirements in the European Union are designed to ensure insurers can meet long-term obligations to policyholders. Maintaining sufficient capital reserves can impact mutuals' ability to offer competitive pricing or return dividends to members. Mutuals typically have a low risk tolerance and hold capital above the minimum thresholds. For some mutuals a review of the investment performance relative to risk levels and asset liability management could offer opportunities to optimize capital structure.

Regulatory bodies are increasingly focusing on the impact of climate change and the importance of sustainable practices. Mutual insurers may be required to integrate ESG factors into investment and underwriting decisions. Many jurisdictions are moving towards mandatory disclosure of climate-related risks, following frameworks such as the Corporate Sustainability Reporting Directive (CSRD). While all jurisdictions are starting to focus on it, there are specific regulations like the Sustainable Finance Disclosure Regulation issued by the European Union. It implies that all companies, irrespective of size and turnover, adopt sustainability guidelines and disclose them, making them freely known. A similar law exists in Brazil as well.

The General Data Protection Regulation (GDPR) in the EU has increased the focus on data protection and cyber security. For mutuals, which typically have lower rates of digitization than stock carriers, this can increase the burden of manual work. In addition, some geographies have laws that govern how insurance companies collect, use and disclose personal information during commercial activities. For instance, Canada's Personal Information Protection and Electronic Documents Act (PIPEDA) stipulates that insurers must obtain explicit consent from consumers before using their personal data for cross-selling, marketing, cross selling and other activities.

While mutuals and cooperatives operate under the same regulatory frameworks as other institutions, there are instances where regulations have been adapted or special provisions have been made to recognize their unique structure and principles. In some jurisdictions, mutuals may be subject to different capital requirement rules compared to their stock company counterparts. For example, the European Union's Solvency II directive includes provisions that recognize the unique capital structure of mutuals and cooperatives. These provisions allow for adjustments in the calculation of required capital, acknowledging the way mutuals and cooperatives raise capital primarily through retained earnings and member contributions rather than through equity markets.

Mutuals and cooperatives benefit from specific tax treatments in other markets, in recognition of their member-owned structures and profit distribution models. In the United States, certain types of mutual insurance companies are eligible for a special tax deduction for dividends paid to policyholders, reflecting the mutuals' distribution of profits back to their members rather than to external shareholders. Overall, mutuals and stock carriers face broadly similar regulatory challenges. And even when alternative regimes exist, mutuals typically hold themselves to the highest regulatory standards.

Our executive interviews revealed broad concerns around increasing regulatory scrutiny, which can place a disproportionately large burden on the mutual sector. Mutuals typically go above and beyond in the regulatory space. But small and mid-sized mutuals in particular struggle with the impact increased regulation places on their operation. For that reason, some join groups, like the Ontario Mutual Insurance Association (OMIA) which supports a network of 36 independent insurance companies, that provide assistance in meeting regulatory requirements.

But the greatest concern regarding regulation is its impact on the competitive advantage afforded by mutuality. As regulation and market pressures force stock carriers to act more responsibly, the more the competitive advantage of mutuals decreases. Many insurers are trying to claim and demonstrate the ethical high ground, not just mutuals. If that helps close the global protection gap, that's a net benefit for society, whatever competitive threat it represents for mutuals.

Rising consumer expectations

Like their stock carrier counterparts, mutuals are challenged by more empowered, informed and digitally mature policyholders. Typically, today's customers expect all the businesses they interact with to provide smart, seamless and personalized experiences, in addition to highly fast and accurate transactions. That very much includes their mutual insurance companies.

But those expectations extend beyond process efficiency. Consider consumer interest in insurers' sustainability policies and practices. According to EY research:

- 79% of customers consider commitments to environmental issues in purchasing decisionsIntensifying regulatory scrutiny
- 59% know their insurers' sustainability management at least somewhat well
- 25% have chosen one insurance brand over another because of its reputation for sustainability.

Consumers are signaling that they want to do business with companies that share their values and attitudes toward the challenges faced by society. As one executive told us, "With the country's macroeconomic difficulties, our main challenge is to achieve a balance between those impacts, guaranteeing adequate protection to all members, and acting responsibly and ethically."

In the property and casualty market, a debate has emerged about the impact of product diversification and expanding the customer base; as some mutuals move away from an exclusive focus on traditional rural communities, will mutual governance models continue to be most effective? Will large commercial insurance policyholders be motivated by the rural connections, charitable giving and higher combined ratios associated with mutual insurers? The answers lie within each mutual's appetite for diversification and desire for growth. The reduction of smaller family-operated farms in developed markets, as consolidation of farming businesses continues, will also inform mutuals' strategic considerations.

No matter whether mutuals serve individuals or commercial entities, there is room to increase engagement with members. Today, most mutuals use similar tactics, including:

- Boards of directors elected by and accountable to members
- AGMs where members receive reports on performance and may vote on significant decisions (e.g., changes to bylaws, major strategic initiatives)
- Equal participation in decision-making processes via "one member, one vote" or "one premium dollar, one vote" models
- Member advisory councils that represent the interests of different member groups or focus on specific issues or the overall organizational mission, providing feedback to the board and management and facilitating stronger member engagement
- Member surveys and other feedback mechanisms to capture insights into members' needs, preferences and interest in new services
- Profit sharing, policyholder dividends and premium discounts when the organization has a surplus
- Community involvement and philanthropic programs that align to members' values and encourage their participation (e.g., volunteering, contributing to policy discussions).

Carriers looking to leverage their differentiating power should start by helping consumers more clearly understand the benefits of mutuality – through the full range of member engagement options. Among the executives we interviewed, there is a strong belief that the principles of mutuality resonate with broader societal customer trends, but that this key differentiator is currently underutilized. We expect to see more innovation in member engagement and more messaging regarding mutuality. Some mutuals are leveraging podcasts and social network groups to increase engagement.

Mutual innovation in action

Community engagement:

- NFU Mutual in the UK funds traffic cameras at high-risk locations where accidents commonly occur.
- In Canada, Co-operators' Community Funds program supports economic development and other value-driven initiatives, including environmental conservation, mental health and education.
- The Land O'Lakes Foundation focuses on hunger relief with a "First Run" program that donates truckloads of fresh produce to food banks across the US.
- African Risk Capacity Ltd and the US government have partnered to protect vulnerable small farmers in the face of intensifying climate risks, with a goal of covering 700 million people by 2034. Parametric insurance provides rapid payouts based on pre-determined triggers, with US government funding promoting technical assistance and increased coverage across Africa.
- In alignment with its purpose, Royal London, the UK's largest life and pensions mutual, has partnered with Cancer Research UK to fund research into hard-to-treat cancers, improve early diagnosis, and support cancer awareness programs in underserved communities. The program aligns to Royal London's purpose.

Tech-driven disruption and the imperative to digitize

Mutuals are contending with the relentless advance of technology and the constant growth of data volumes, alongside rising consumer expectations for more robust digital experiences. Stock carriers face the same challenges, but in general have invested more and are farther along on their digital transformation journeys. However, many leading mutuals are investing in AI, blockchain, the Internet of Things (IoT), and smartphone apps, both to digitize their operations but also to meet consumer expectations. Digital self-service is a common digitization priority, though many firms don't want to lose the personal touch. They are focused on optimizing their customer journeys so that customers find it easier to transition from digital agents (i.e., chatbots) to human representatives when needed.

The digitization and automation journeys of different types of mutuals can vary significantly. P&C carriers typically emphasize low- and no-touch service options across multiple channels, in line with customer demand. Life mutuals are primarily focused on digitizing the agent experience and improving the speed and accuracy of service delivery. While there is a push towards direct online sales and self-service tools, the agent remains central to the sales process, especially for complex products.

Many mutuals are now also actively deploying process Intelligence capabilities to provide data driven understanding into hidden process inefficiencies and bottlenecks.

Mutual innovation in action

New digital tools and apps:

- Wawanesa's Digital Small Business Solution allows them to quote and bind nearly 100 types of small businesses policies in moments.
- Royal London has launched a new transfer hub to make pension consolidation easier, while a new digital tool for retirement and lifestyle planning helps advisers add value for clients.
- Southern Cross Health Society in New Zealand handles more than 99% of claim submissions electronically.
- In the US, Liberty Mutual has developed the ErgoValuator app, which uses AI and IoT to capture workplace task parameters and assess safety risks.
- Crédit Agricole Assurances in France offers an "e-Wheel" tool to help customers to find appropriate personal protection, just one part of its 2025 Ambitions growth strategy that involves huge investments in digital and technology transformation.

Partnerships and ecosystems:

Mutuals are partnering with ecosystem technology partners to bring the benefits of advanced technology to their members.

- In Japan, Nippon Life Insurance Company has entered into a strategic partnership with H2O.ai, an open-source machine learning platform, to improve risk mitigation for policyholders. By integrating H2O.ai's technology with its own systems, the company is building an in-house data science function.
- In Italy, Reale Mutua is working with Expert.ai, to innovate its claims management and damage settlement capabilities based on natural language processing.
- Cloud migrations: Modernizing core systems and data management capabilities through cloud migration is creating new innovation and transformation possibilities.
- KLP in Norway is undertaking a major digitization effort, with a forward-looking digital pension concept based on cloud-based infrastructure based and innovative toolsets.
- In the US, Liberty Mutual has migrated nearly three-quarters of its workloads to the cloud.
- The NACF in South Korea "Cloud Virtual PC" model has helped promote a more convenient, versatile and efficient work atmosphere. By formulating automation standards and gaining certification in quality management, the company has implemented robotic process automation systems in its member cooperatives throughout the country.
- HBF Health Insurance Australia is migrating from traditional on-premises data and systems to secure and efficient cloud technology to store and manage crucial data, enable faster and more informed business decision making, and enhance real-time interactions with members and medical providers.

Accessing capital for growth investments

Unlike corporations, mutuals cannot issue equity in the traditional sense, as this would compromise their member-owned structure. This is often cited as a limiting factor of the mutual model, particularly for those who need significant investment for growth or modernization. The most common route for mutuals to raise capital is through retained earnings, where profits are reinvested back into the organization rather than distributed as dividends. This method is slow but steady, and it aligns with the mutual ethos of prioritizing long-term stability over short-term gains.

Another approach is subordinated debt, which is a form of borrowing that ranks below other debts if a company falls into liquidation. This type of debt is attractive to investors seeking higher yields and can be structured in a way that respects the mutual's ownership model. Mutuals can also raise capital through member contributions, either by increasing membership fees or by issuing mutual capital instruments (MCIs). MCIs are a relatively new innovation that allows mutuals to raise funds from members without diluting control. They carry long-term, fixed interest rates and are designed to absorb losses, thus protecting the mutual's financial stability.

The executives we interviewed made clear that larger mutuals are typically more comfortable with their access to capital for growth and investment, whereas smaller mutuals feel constrained. One executive from a large mutual described how the firm regularly tests its strategic direction of mutual ownership, adding that access to capital has never been a constraint. Capital pressure is more likely to be felt by smaller mutuals, particularly P&C carriers that have experienced consecutive challenging years characterized with retained earnings under pressure.

Though demutualization and mergers and acquisitions (M&A) were not focal points of our research, it's clear that consolidation and other future business model changes are considerations for smaller mutuals. But the thresholds for action are high, if only because mutuals have to address critical questions involving how changes in ownership status align to the interests and values of members. Mutuals must analyze the potential financial benefits for members (e.g., receiving shares in a newly formed company, a cash payout) and the long-term financial stability and growth prospects. Access to capital is likely to remain a key decision-making factor in demutualization or other shifts in ownership status.

Mutual innovation in action

Embracing AI and process intelligence:

Generative AI capabilities hold enormous transformative potential for mutuals, from more to personalized services, to straight through processing (STP), to productivity tools for employees.

- Liberty Mutual's AI Auto Damage Estimator, trained on anonymized claims photos, rapidly generates repair estimates for customers. The company is also using GenAI to write commercial policies faster and more precisely by extracting loss history data from unstructured documents and sharing it with underwriters.
- Mutua Madrileña in Spain using anomaly detection and pattern recognition techniques to flag suspicious claims and transactions, mitigating financial losses and strengthening security protocols. The AI-powered fraud detection systems continuously adapt to evolving threats.
- A leading Canadian mutual company identified $10 million worth of benefits from the deployment of process intelligence in claims, underwriting, billing and vendor management.
- GRAWE in Austria has established an AI Advisory Board, one of the first in Europe, to advise on AI implementation and opportunities. Some of the mutuals rolling out copilots in their secure environment to enable protected exploration by their teams while recognizing they will have the ability to explore more use cases as they progress through their core insurance platform cloud journey.

Delivering on the principles of mutuality: recommended actions for innovation and growth

The following recommendations are closely interrelated. For instance, firms must bolster their member engagement strategies if they are to maximize their investments in product innovation, which may require increased digitization and collaboration with external partners. In taking these steps, firms can promote a virtuous circle whereby their efforts to serve the interests of members lead to stronger financial performance.

The core principles of mutuality

Principle 1: Purpose-led strategies, rooted in long-term thinking and value

Principle 2: Member-centricity and owner engagement

Principle 3: Growth and innovation via value creation

Principle 4: Service and support through social, economic and environmental change

Leaning into the benefits of mutuality and strengthening engagement models

Member-centric business may provide significant competitive advantage in a time of increased corporate distrust. But many policyholders are still unaware of the benefits and features they are entitled to. Mutuals can better emphasize the unique value of mutuality in all market-facing activities. Clearly articulating other financial benefits (e.g., dividend payments, premium discounts) in customer communications is the first step. One executive remarked that, "Mutuality is not tangible by itself as a point of differentiation and not a winning hand in isolation. How you combine mutuality with other factors is what creates success."

Smaller mutuals that are focused on specific geographies (and particularly those in rural communities) may have a natural advantage in fostering a strong sense of community and shared purpose with strong member participation. As mutuals grow, such direct and local engagement may become more difficult. Larger mutuals must proactively invest if they are to create and sustain strong community support and connections. Gamification strategies can be employed to make engagement more interactive and fun, rewarding members for healthy behaviors or for participating in community initiatives.

ESG can provide inspiration, from the development of new protections and risk prevention to promote a more equitable and sustainable financial system and society. Linking philanthropic and community programs to mutuality is a great way to prove mutuals "walk the walk" when it comes to putting people before profits. It's worth remembering that mutuality also helps attract talent, a significant plus in tight labor markets. Community-oriented programs may include education resources and tools that help policyholders understand and prepare for the risks they face.

Because our research shows that more effective engagement correlates to premium growth, we believe member engagement will retain outsized importance for all types of mutuals. Increasing competition and rising customer expectations also put a premium on effective member engagement strategies and tactics, particularly for mutuals looking to differentiate from stock carriers and shore up their financial performance.

With increased price competition and embedded insurance gaining traction in personal lines, many mutuals are looking to expand their commercial business. This strategy may create a paradox in terms of mutual identity and purpose, and their commitment to serving specific segments.

Upgrading the technology infrastructure as the foundation for innovation

For many mutuals, core system modernization particularly in the P&C space, which often involves more extensive cloud adoption, is the first step toward digital maturity. Mutuals with modernized platforms and data infrastructure are also best positioned to take full advantage of emerging technology, including GenAI, machine learning and predictive analytics. Data quality is paramount for all modernization efforts.

For both core modernization and deployments of new tools, it is critical to build a clear business case, based on benefits from across the business. With the right new tech in place, mutuals can drive value across the business (e.g., by enabling more targeted member engagement, more flexible products, more accurate underwriting, faster claims processing). The value of more efficient regulatory compliance should also be factored into ROI targets.

The path to technological maturity will be different for every mutual. For instance, life insurers are often wrestling with legacy systems, since they generally lag the many P&C carriers that have modernized their core platforms. This is no different in the mutual sector. Mutuals focused on older or rural customer segments will have to account for the lower rates of digital adoption among these groups. That means all technology investments must be considered in terms of their immediate-term customer impacts. Technology will be a pillar of future success for mutuals, particularly in enhancing the "personal touch" that is the foundation of many mutuals' business.

Embracing leading practices for cost management

Mutuals can apply a number of leading practices to address mounting cost pressures and establish a lean, flexible cost basis that puts profitability within reach. Mature cost frameworks and approaches typically address a range of cost optimization opportunities across the business including:

- Claims and underwriting leakage: comprehensive analyses to identify and quantify the loss of funds due to inefficiencies, errors, overpayments, under-recovery of subrogation opportunities, inadequate pricing, and policy terms that do not adequately reflect the risk, with the primary objectives to uncover inefficiencies and financial losses and understand their root causes
- Vendor relationships: validating that suppliers are delivering value, evaluating opportunities to consolidate vendors via preferred supplier networks and to achieve better pricing and enhance service levels
- Operational efficiency: streamlining and automating workflows (including with generative AI) and eliminating redundancies and duplication through process reengineering; leveraging process and task mining to uncover opportunities for improvement
- Partnerships: embracing partnerships with other mutuals to lower costs through consolidation of specific activities (e.g., broker training) and expand their capabilities (e.g., subrogation for smaller carriers) or product portfolio, based on careful cost-benefit balance to avoid complementary partnerships (which often cut into partnerships)

Mutual innovation in action

- In Korea, National Agricultural Cooperative Federation (NACF) has established the N-Hub, a big data platform, which offers farmers and NACF members access to infrastructure services and analytical data. Through the analysis of 5.7 billion agricultural data points, the platform predicts prices and recommends crops based on conditions, ultimately enhancing productivity.
- Zenkyoren in Japan provides a desktop and mobile phone app for agricultural risk diagnosis, helping farmers protect their crops, livestock, and overall operations. Zenkyoren has also developed a virtual reality (VR) tool which allows farmers to simulate work accidents.
- Desjardins, a Canadian mutual, is heavily invested in education promoting financial literacy.
- In the UK, rural insurer NFU Mutual offers parametric coverage and predetermined payouts for dairy farmers whose cattle produce less milk because of high temperatures. The new offering was developed and piloted in collaboration with parametric insurance specialist Skyline Partners, broker Gallagher, and carrier Markel.
- Uruguayan carrier Río Uruguay Seguros offers a targeted insurance product for rural women working in the agricultural sector, with protections for women and their families against sickness and accidents, including cancer, surgeries, income support for hospitalization, organ transplants and other risks.

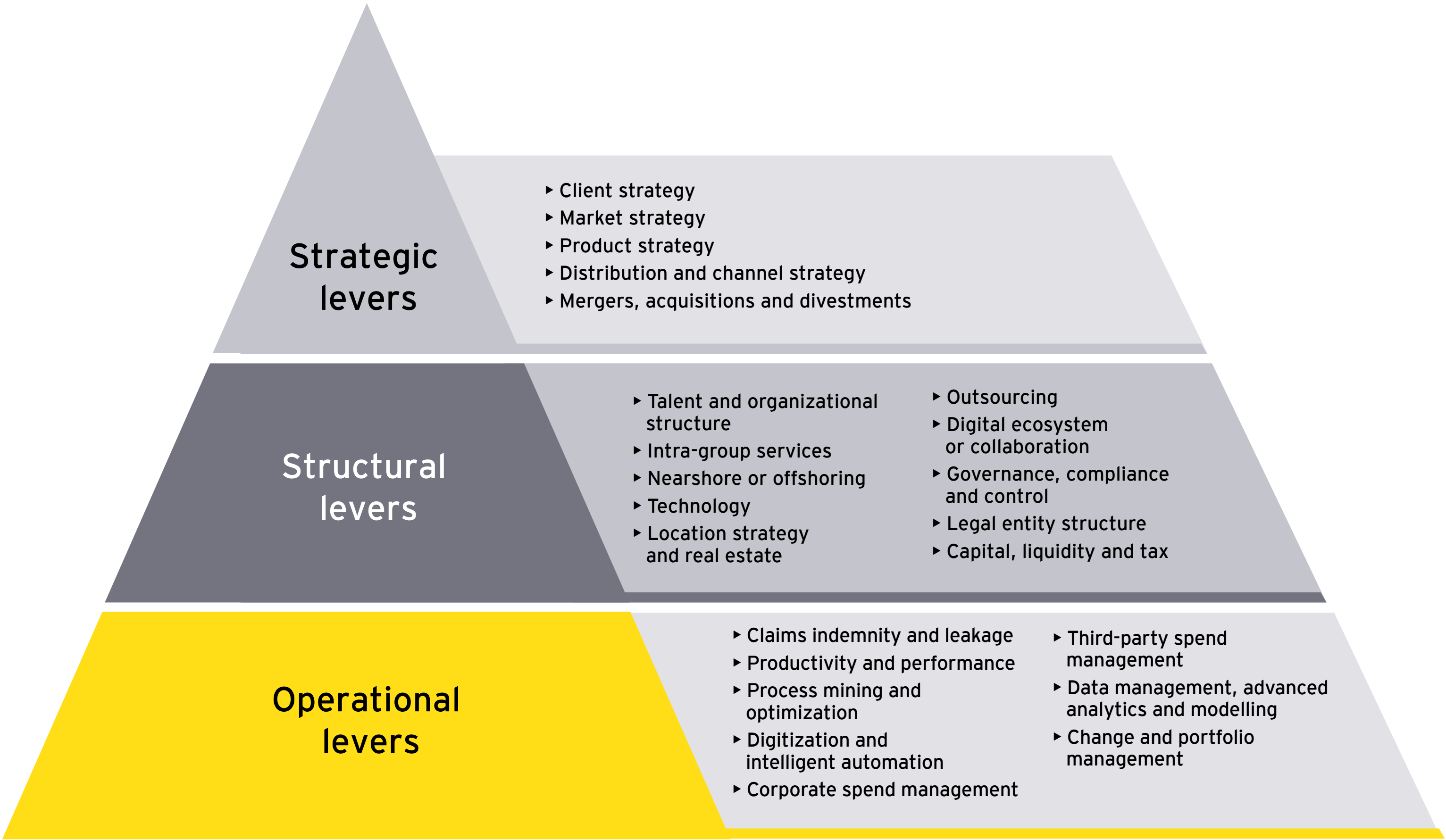
EY's strategic cost transformation framework has helped a number of mutual and cooperative insurers to uncover and take action to deliver sustainable cost improvement aligned to their objectives.

Big Questions

- Market context
- Performance gap
- Opportunity gap
- Perception gap

Cost objectives

- Cost reduction
- Cost flexibility
- Cost scalability
- Cost transparency



WHAT MUTUAL EXECUTIVES SAY:

"Claims inflation and price sensitivity are driving an increased focus on cost – both expense and loss. We have a powerful sense of looking after our members' money and being respectful of our owners' resources.

Enriching the portfolio of offerings through digitization, personalization and loss prevention

Beyond optimizing their operations and cost structures, mutuals that upgrade their service offerings can chart a path to continued success. Process digitization and automation, as well as strong data management capabilities, provide the foundation for the types of products customers now expect, including usage-based insurance offerings and risk monitoring based on IoT sensors. Ecosystems can also open up new markets and customer segments, provided mutuals develop the capabilities for seamless and secure connectivity. Participation in larger public-private partnerships, such as flooding insurance schemes, typically aligns to the mutual principle of societal protection.

Loss prevention – including the proactive identification and mitigation of risks and responses to losses –is an increasingly important part of the mutual value proposition. Mutuals often provide complimentary loss prevention inspections for policyholders to identify potential hazards in residential and commercial properties (e.g., issues with heating and electrical systems, structural concerns, environmental exposures). Several mutuals provide wildfire loss prevention and suppression services to customers whose homes are threatened.

Mutuals can deploy a range of alerts and notifications to proactively prevent losses. For instance, some mutuals are building advance warning systems for climate-related disasters and other natural calamities. When bad weather is expected, mutuals contact clients in specific regions to recommend actions for members seeking to protect their goods and their own safety. These preventive strategies are also beneficial for regular risks (e.g., smart sensors to detect leakages and prevent extensive water damage).

As the pace of change and specifically in the insurance industry increases, mutuals who don't spend time considering what, how and who they insure, risk being left behind.

Mutual innovation in action

Enhanced auto offerings:

- Desjardins has created an ecosystem offering called EspacePropio that acts as a one-stop shop to help homeowners with a broad range of needs from home renovations and maintenance to buying and selling property.
- Unipol has installed over four million "black-box" devices in Italy, using telematics data and advanced analytics to personalize insurance offers.
- According to State Farm, customers saved an average of 16.3% on auto insurance in 2022 through its usage-based program.
- In North America, PrevTech has partnered with a number of mutuals to offer electrical fire monitoring solutions, that has proven particularly beneficial in the agricultural sector.

A focus on preventions:

- Liberty Mutual Reinsurance in the US, along with managing general agent XS Global and technology provider Safehub, has launched a sensor-based, parametric reinsurance treaty for earthquake risk. Building-specific data available in real time via smartphone-sized sensors has enabled huge gains in disaster risk management.
- Multiple mutuals have partnered with LeakBot, a sensor-based tool for proactive monitoring, to offer members early warnings of leaks and water damage.
- Mutuals offering wildfire prevention services offer timely and actionable tips, such as removing flammable materials from the property, covering potential routes for embers to ignite the home's interior and installing temporary sprinkler systems.

Enhancing the employee value proposition

Maintaining a highly skilled and motivated workforce is vital to all businesses, and mutual insurance is no different. Finding ways to elevate the employee experience is a key focus for mutuals – and rightly so. In recent years, the insurance industry has seen a drastic change in its talent outlook, with warning signs flashing that the industry needs to upgrade its skills base and attract younger workers. One recent survey found that only 4% of millennials (who now make up about 50% of the workforce) say they are interested in insurance careers. Many mutuals also face an aging workforce dilemma, with more people retiring from the insurance workforce than joining it.

While the talent gap has been a persistent industry issue, mutuals have bucked the trend to some extent, with historically high retention rates relative to stock carriers. About 40% of our survey respondents said their firms found it was at least somewhat easy to attract and retain talent.

Many mutuals also boast high employee satisfaction ratings, including PFA in Demark, and both The Folksam Group and Länsförsäkringar AB of Sweden. Mutuals' commitment to upholding a strict code of conduct and investment in employee training are factors in these high ratings. When mutuals effectively communicate and embody their code of conduct, they form a bond of trust with employees, who can feel confident that their rights will be respected. Beyond strengthening trust, mutuals that invest in their employees' long-term development foster a sense of belonging.

Beyond their commitment to ethics, mutuals have offered employees purposeful work. Many employees feel a sense of pride that their work is about more than just generating a profit. One executive told us that employees cite public perception as a "pull factor" in attracting workers, while the societal impact provides a reason to stay, given alignment with the employees' own values. Another interviewee said "storytelling" was the key to reinforcing the sense of purpose in employee's day-to-day lives. "Explaining the impact the company has on people's lives helps employees understand the value they're delivering beyond financial results."

Maintaining an appropriately skilled and motivated workforce will get more challenging in the next decade. Mutuals must look to upgrade the employee value proposition to attract millennials or younger workers with limited interested in financial services and to bridge the growing talent gap as more insurance professionals retire.

> "Because mutuals offer purposeful work, many employees take pride in their jobs.

Conclusion: taking action for a more purposeful and profitable future

Given our extensive research and experience with the mutual insurance market, we remain optimistic about the bright future for the industry. After all, people, companies and communities around the world need stronger protections against diversifying and proliferating risks – and a high-functioning insurance industry. In an age of corporate distrust, mutuals have a unique ability to align authentically with their customer needs and interests.

To make the most of their distinct advantages, mutuals can look to drive stronger member engagement, increased awareness of mutuality's value, more innovative products and more advanced technology deployments. We believe these steps will help mutuals create a more purposeful and profitable future, while still fulfilling their vital commitments to their members.

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