

sigma

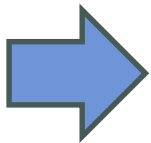
No 4/2016

Mutual insurance in the 21st century: back to the future?



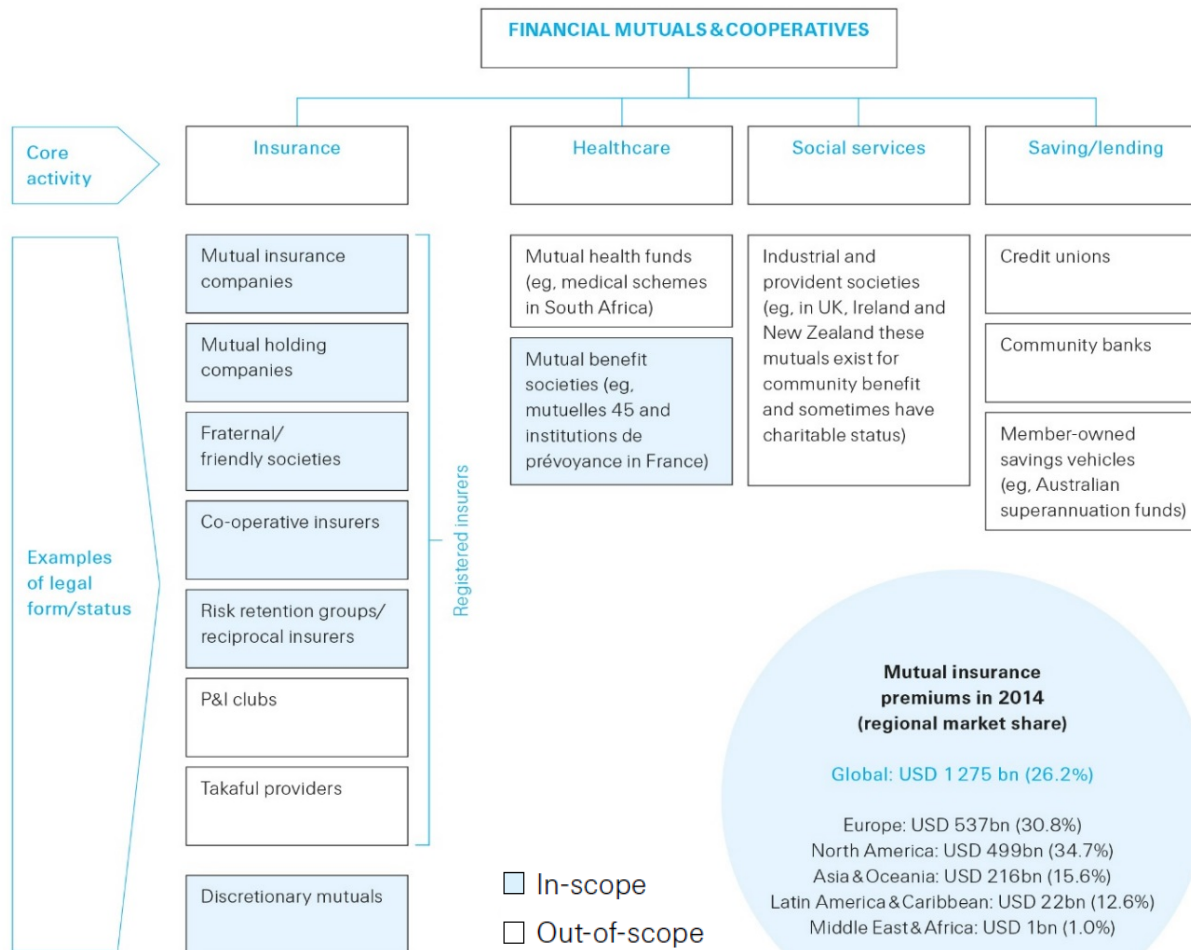
Key takeaways

- Mutuals' overall market share higher in recent years ...
... yet still below levels in earlier decades
- New challenges emerging:
 - enhanced solvency regulations
 - tighter corporate governance regimes
 - disruption from digitalisation



These are permanent changes and mutuals will need to continue to adapt

Mutual sector is highly heterogeneous



Multiple definitions, sizes, types and range of organisational forms...

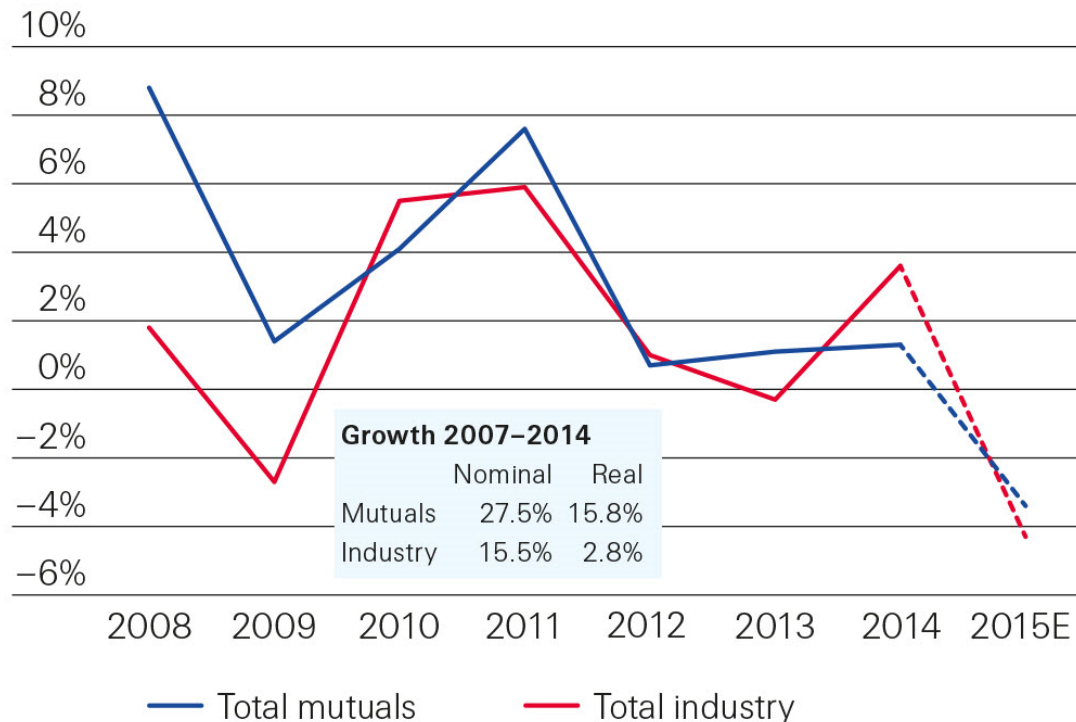
... yet common themes

- Member owned
- Democratic
- Solidarity
- Defined purpose
- Not-for-profit



Mutuals had a good financial crisis

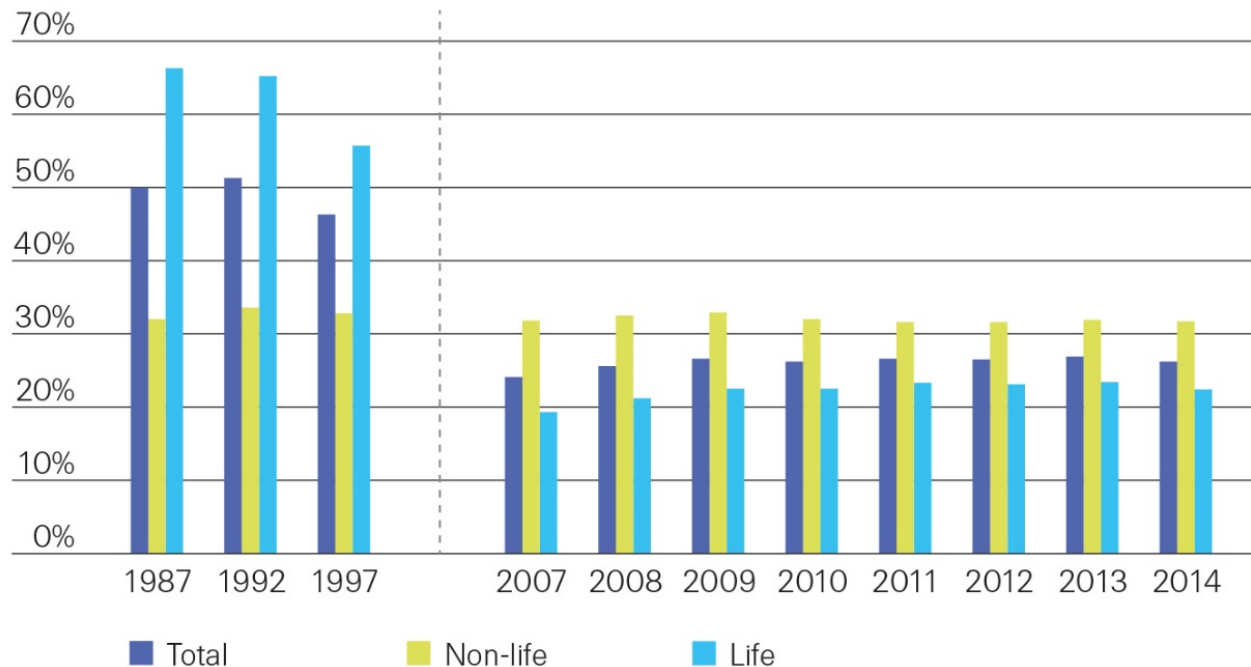
Annual nominal growth in mutual and world insurance premiums



Note: The observation for growth in mutual premiums in 2015 is based on publicly available information on the largest 50 mutuals by premium, which collectively account for over 60% of the full mutual insurance sector.

Source: ICMIF, Swiss Re Economic Research & Consulting calculations.

Mutual insurers' share of global market premiums rising (but modestly!)



Note: observations for years prior to 2007 are based on market share estimates for the five largest mutual insurance markets as reported in *sigma* 4/1999. The figures have been adjusted to reflect known differences in the population of firms included in the US, French and Japanese mutual sectors in later years. Canada, Japan and Australia, to reflect differences in institutional coverage and sector definitions. But given their different construction, the pre- and post-2007 market share figures are not strictly comparable.

Source: ICMIF, Swiss Re Economic Research & Consulting calculations.

Overseas expansion part of the story

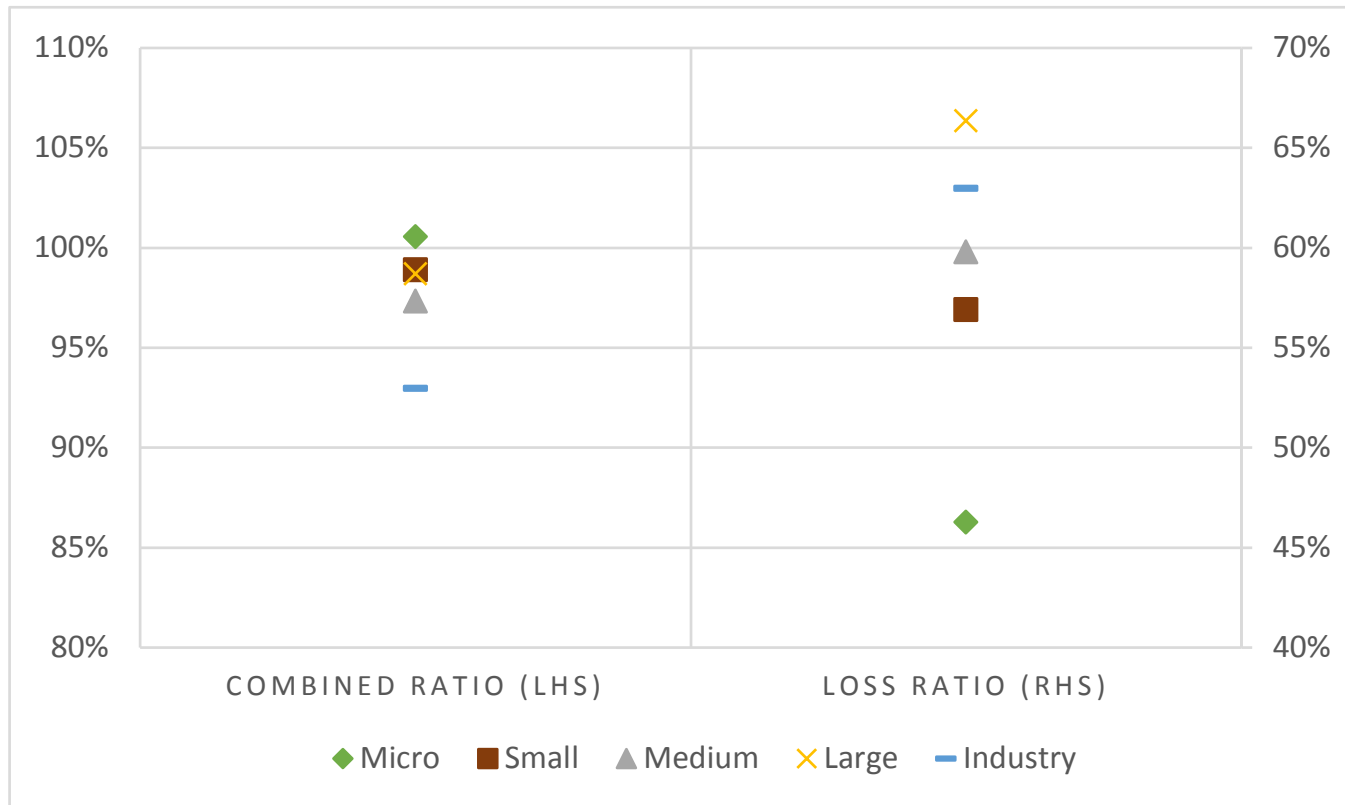
Overseas acquisitions/start-ups by selected mutual insurers (2007 to 2015)

Mutual insurer	Main home market	Market entry through acquisition or start-up (approximate date)
Achmea	Netherlands	Bulgaria (2008), Russia (2008)
FM Global	US/Canada	Hong Kong (2007), Mexico (2009)
Groupama	France	Bulgaria (2008), Greece (2007), Hungary (2009), Italy (2007), Romania (2008), Turkey (2008)
HDI/Talanx	Germany	Argentina (2011), Chile (2008), Mexico (2009), Singapore (2012), Ukraine (2008), Canada (2010), Poland (2012)
Liberty	US/Canada	Ecuador (2012), Ireland (2011), Poland (2007), Turkey (2007)
Mapfre	Spain	Turkey (2007), US (2008)
Meiji Yasuda Life	Japan	Germany (2010), Indonesia (2010), China (2010), Poland (2012), Thailand (2013), US (2016)
Nippon Life	Japan	China (2009), Indonesia (2014), Australia (2015), India (2015), Thailand (2015)
Sumitomo Life	Japan	Vietnam (2012), Indonesia (2013)
Uniqa	Austria	Romania (2008), Russia (2009)
VIG	Austria	Bulgaria (2007), Croatia (2008), Estonia (2007), Latvia (2007), Lithuania (2008), Poland (2012), Romania (2008), Turkey (2007)

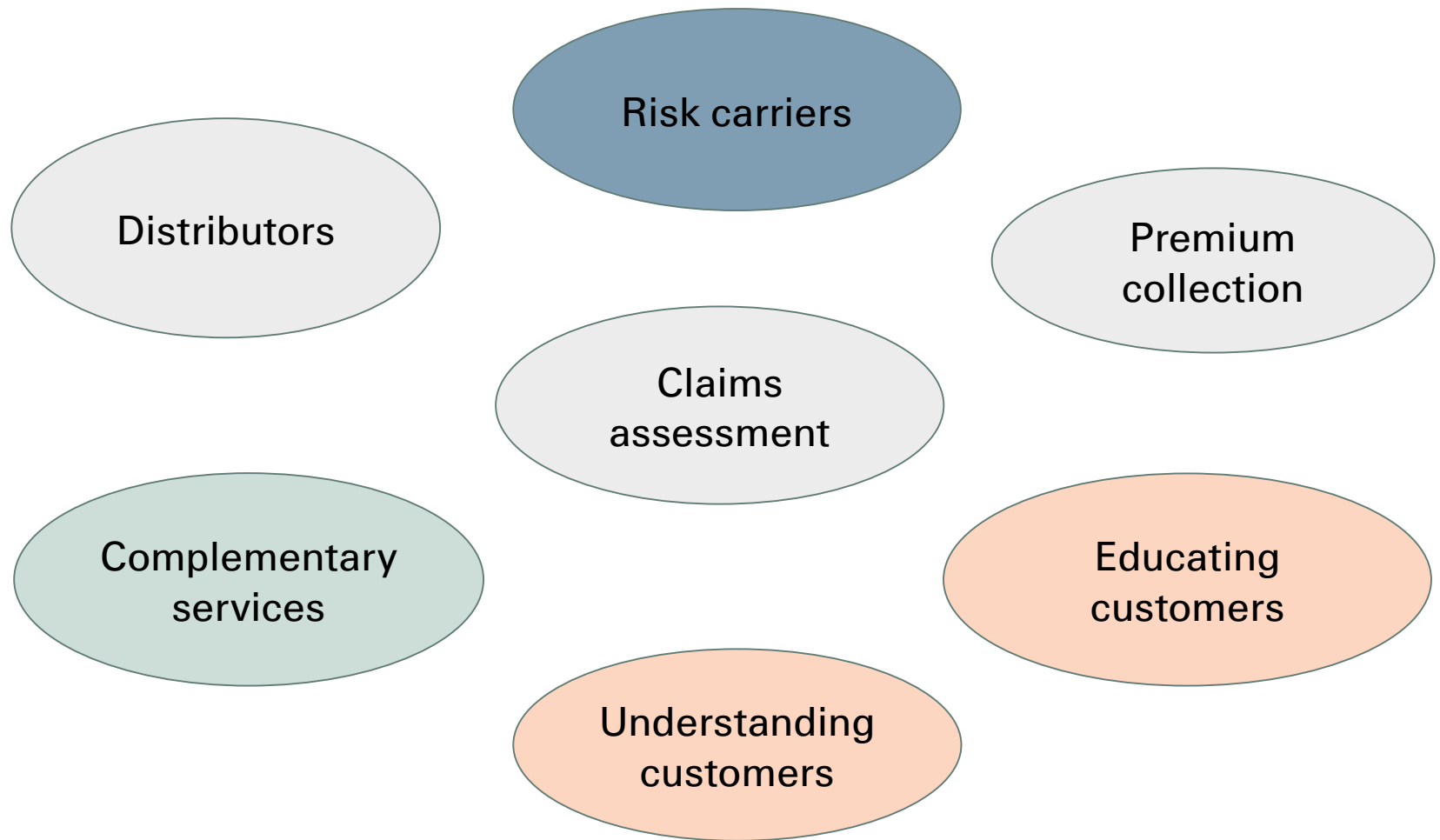
Source: Swiss Re Economic Research & Consulting.

Underwriting performance is mixed

Average loss and combined ratios by size of mutual compared with overall industry experience (average in the period 2007 to 2014)



Variety of services offered



New solvency regulation is changing the 'rules of the game'

- New risk-based solvency regimes will strain some mutuals' balance sheets



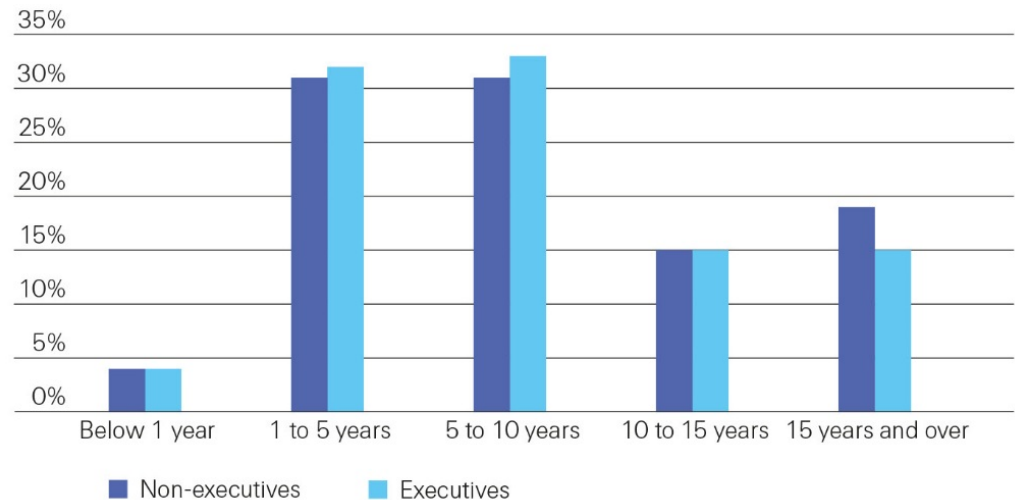
Could be a problem for some mutuals with limited access to external capital

- But new solutions to create capital flexibility are available:
 - customised reinsurance solutions
 - new equity-like capital instruments (eg UK and France)
 - insurance linked securitisations

Upgrading corporate governance is a challenge

- Key areas of focus:
 - Composition & structure of the Board
 - Disclosure & transparency
 - Engagement with members

Director tenure distribution in mutual insurers (% of sample)



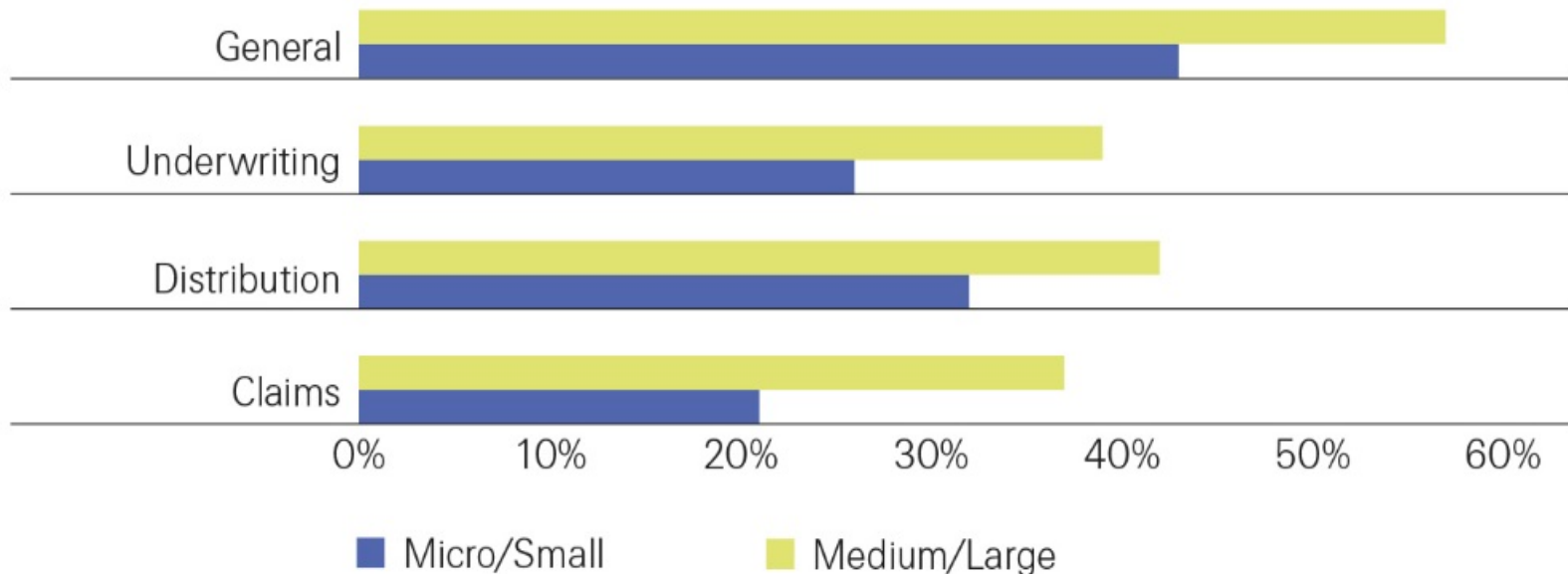
Note: based on available information from mutual insurers' websites in Australia, Canada, Ireland, the Netherlands, the UK and the US.

Source: Swiss Re Economic Research & Consulting.



Small mutual insurers worry that new regulations designed for publicly-listed firms could add to costs and impair their business models

Smaller mutuals struggling to adopt digital technology

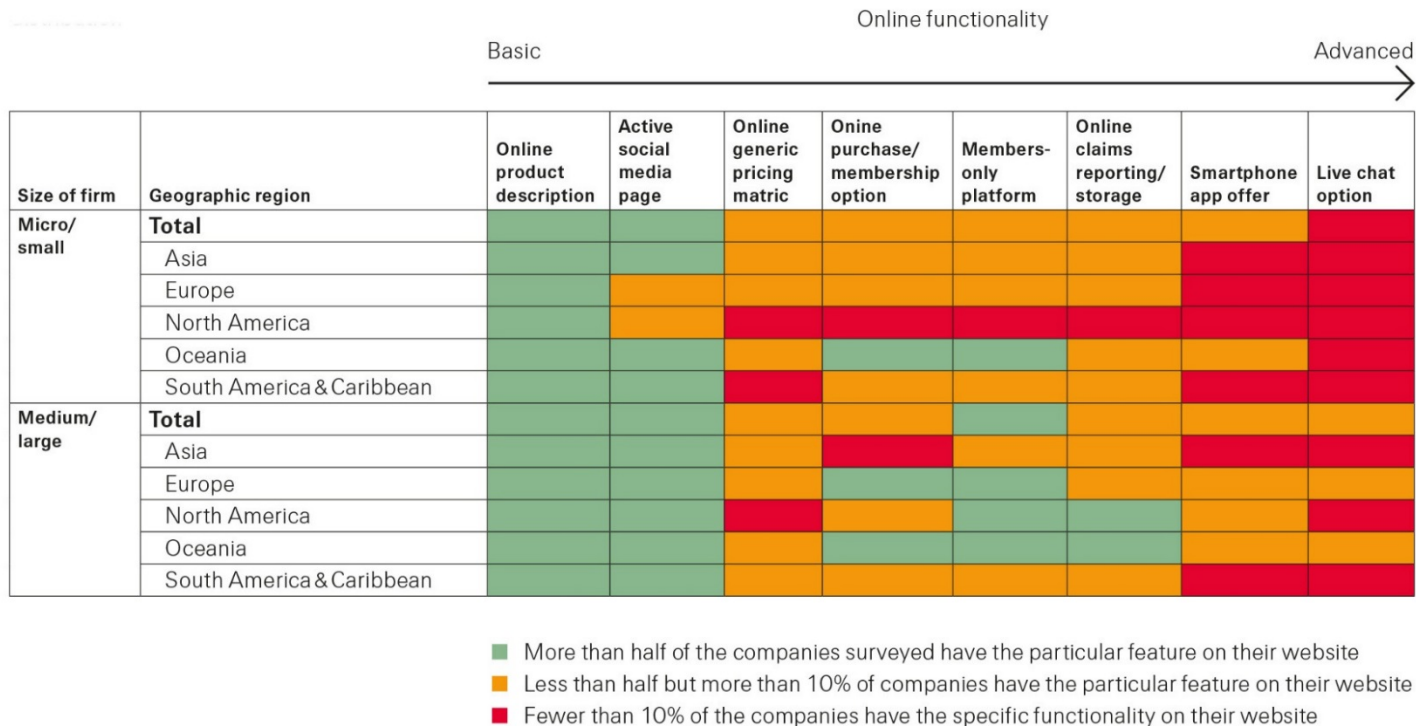


Note: data collected from websites of 210 mutual insurers across five geographic regions (Asia, Europe, Oceania, North America, South America and Caribbean). Percentages refer to the share of companies in each of the size groups offering all specific online functionalities within a category. (1) General: company has a web presence, an online platform to exchange views and vote, and publishes its annual report online; (2) Underwriting: customised quote available online; (3) Distribution: existence of online product descriptions, price matrix, live chat capability, active social media account(s), web-based insurance purchase option and membership application, and a mobile app; and (4) Claims: existence of a members-only platform and online claims reporting.

Source: Swiss Re Economic Research & Consulting.

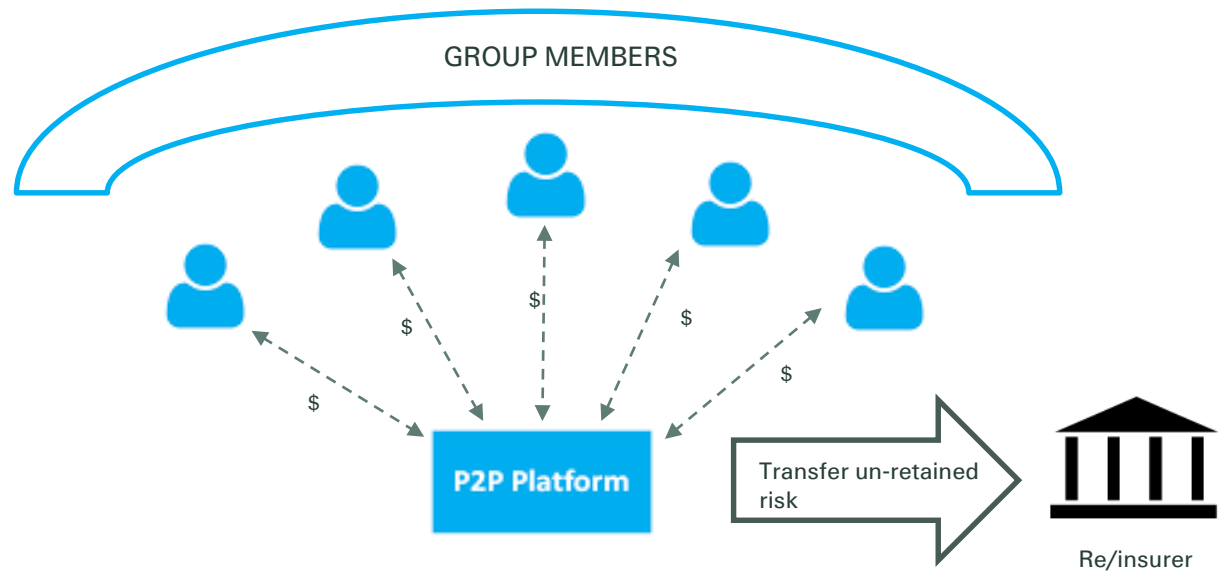
Digital distribution adoption slower in Americas

Source: Swiss Re Economic Research & Consulting, based on information compiled from mutual insurers' websites in February 2016.



Source: Swiss Re Economic Research & Consulting, based on information compiled from mutual insurers' websites in February 2016.

Peer-to-Peer: new mutuals on the block



Examples:



Source: Swiss Re Economic Research & Consulting.

Conclusions

- Mutual insurers have performed well recently; many services
- Regulatory and competitive landscape is changing which is a challenge... but there are solutions
- Mutuals should be ideally placed to leverage new technology to better meet their members' interests



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