Swiss Re

News release

A comeback for mutual insurance? Swiss Re *sigma* report investigates

- Mutual insurers' share of global premiums has risen in recent years, reversing the decline of earlier decades
- New risk-based capital requirements and tighter corporate governance standards pose challenges for some mutual insurers
- Novel capital-raising instruments, greater access to customised reinsurance and alternative risk-transfer solutions will give mutuals increased financial flexibility
- Mutuals must upgrade their underwriting and distribution practices if they are to thrive in the digital age
- Digital technology can help mutual insurers better serve their members' long-term interests, and keep some risks insurable

Zurich, 2 August 2016 – The mutual insurance sector has undergone a modest recovery in recent years, says Swiss Re's latest *sigma* report "Mutual insurance in the 21st century: back to the future?" Mutual insurers' share of the overall insurance market increased from 24% of direct premiums written in 2007 to just over 26% in 2014, reversing some of the declines of previous decades. However, the segment faces challenges, including adapting to new risk-based capital requirements and more stringent corporate governance arrangements, which could put some mutuals at a competitive disadvantage. Further, mutual insurers must embrace technological disruption. Exploiting digital technology such as smart analytics and social media should allow mutuals to better serve the interests of their member-owners, while their ownership structure should enable mutuals to keep insurance affordable for some individuals and risks.

The primary purpose of mutual insurers is to provide risk protection coverage for its owner-members, rather than to make profits or provide returns to external shareholders as in the case for stock-based insurers. Over the past few years, cumulative premiums written by mutual insurers have outpaced those of the wider insurance market, with much of the outperformance concentrated during the height of the financial crisis in 2008-09.

"That mutuals' relative premium performance did not reverse once economic growth resumed after the financial crisis, suggests a degree of permanence to the segment's recovery," says Kurt Karl, Chief Economist at Swiss Re. "Some mutual groups have expanded internationally in recent years, and new

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mutuals have been established in a number of markets, another indication of the segment's renewed popularity."

However, while mutuals' share of the global insurance market has increased modestly since 2007, it remains well below previous highs. For example, in the life sector, the share of global premiums of life mutuals was 23% in 2014, well below levels of around 66% in the late 1980s and early 1990s before a wave of demutualisations in a number of countries.

New challenges

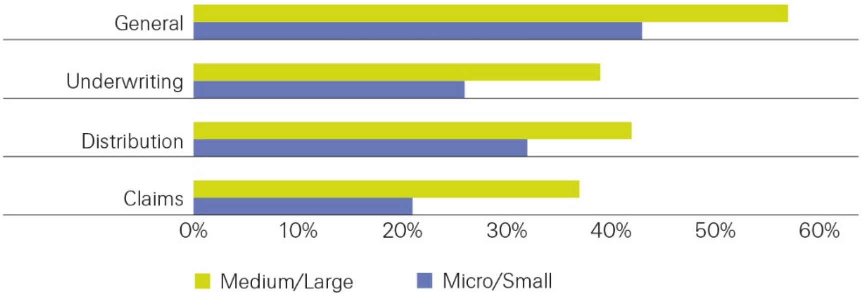
Mutual insurers face a number of challenges. The most obvious comes from new risk-based capital requirements and tougher corporate governance arrangements introduced by governments and regulators, designed to boost the resilience of individual insurers and curb excessive risk taking. These requirements could put some mutuals, especially smaller ones with a narrow regional or business line focus, at a competitive disadvantage. Larger and better-diversified insurers are in a stronger position to manage the additional operational and funding costs associated with compliance.

Regulators appear alert to the possible unintended consequences of their new rules, and emphasise proportionality in implementing the new prudential (i.e. capital) and governance regimes. There has also been a renewed focus on the range of capital solutions available to mutuals, including legislation in some countries to allow equity-like capital instruments to be issued, such as certificats mutualistes in France. Together with customised reinsurance solutions and alternative risk transfer mechanisms such as insurance-linked securities, this will give mutuals increased financial flexibility to grow their business and compete with other types of insurers.

Embracing digital technology

Digital technology is changing the way that insurance is designed, priced and sold, and is fundamentally re-configuring the competitive landscape in which all insurers operate. Mutual insurers must adapt and upgrade their underwriting and distribution practices if they are to remain relevant in the digital age. There are signs that many are actively embracing such change, but some mutual insurers are lagging behind.

Figure 1: Mutuals' adoption of technology, by size of firm



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 surveyed companies in each of the size groups (micro/small, and medium/large) offering all specific online functionalities within a category. The following functionalities were investigated for each company: (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, based on information compiled from mutual insurers' websites in February 2016.

For example, smaller mutual insurers have not yet adopted full online functionality in their business practices, perhaps reflecting their greater attachment to traditional agent/broker distribution. The laggards run the risk of losing out to market participants better placed to harness the new technologies. This is especially true given the growing development of peer-to-peer (P2P) insurance platforms, which enable individuals to share risks among themselves in much the same way that affinity-based mutual insurers do.

By leveraging new technologies, mutuals can continue to build on their recent renaissance and potentially launch a new era of mutualism. Exploiting social media and smart analytics to better understand the needs and preferences of customers should be a natural fit for mutuals, given their underlying purpose to serve the long-term needs of their owner-members rather than outside shareholders. Furthermore, technology-led moves towards full risk-based pricing could price some people out of conventional insurance. Without the distraction of providing returns to external shareholders, mutuals could play a crucial role in keeping insurance premiums affordable and certain risks insurable.

Notes to editors

Swiss Re

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