EY Global Insurance Mutual Market Scan

Key principles of mutual differentiation

September 2021

EY

Building a better working world

Our approach: global mutual and cooperative market scan

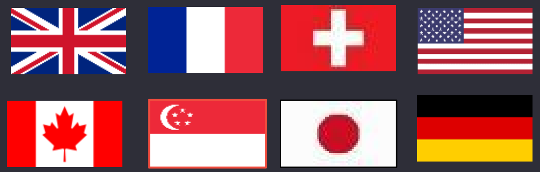
EY conducted an extensive scan of the global insurance sector between 2019-2020 to understand what sets mutual and cooperative insurers apart from stock carriers, and how mutuals can drive and operationalize a purpose-led strategy to differentiate and accelerate growth.

10
regions with mature mutual insurance market share assessed for deep dive

50+
mutual case studies analyzed globally

140
participants across ...

35+ countries
involved in benchmarking survey



Mutual differentiation principles

Methodology: market and organizational insights

The principles of mutual differentiation were established from market and organizational insights. These insights were obtained through 1) collaborating with the EY global network of subject-matter advisors, 2) EY Global benchmarking survey on mutuality, 3) assessed maturity of deep-dive markets, 4) 30+ mutual case studies analyzed across the mutual framework.

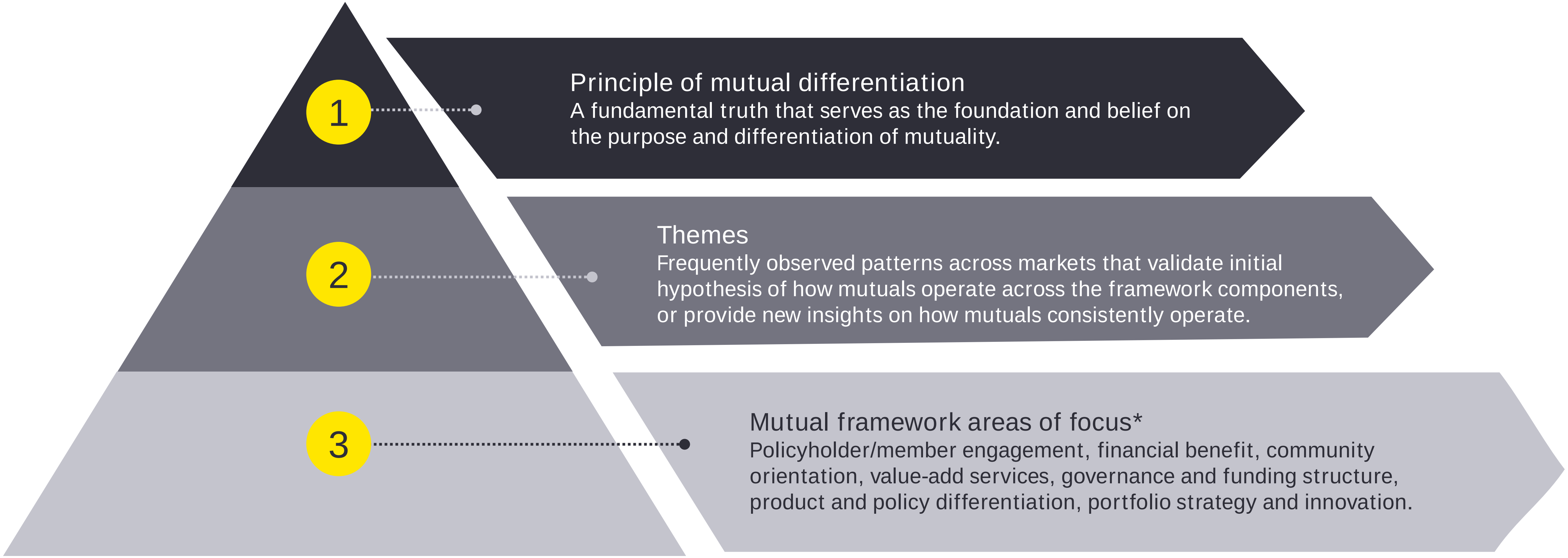
Market insights

- Eleven markets, chosen because of their mature mutual insurance industries, were investigated through insights from EY global insurance leaders and supplemental research, and from conducting a global benchmarking survey within EY across 36 countries with 110 participants.
- Five markets, which ranged in their degree of comparability to the Canadian market, were chosen for a further deep-dive to obtain organizational insights and assess the maturity of the market across framework focus areas.

Organization insights

- Thirty-plus mutual companies across the deep-dive markets were chosen for analysis across the mutual framework and maturity model because they were identified as leading examples of mutuality in a specific area of our framework.
- Themes were identified through combining the organizational and market insights, which led to four overarching principles that differentiated mutuals from stock carriers.

Mutuality differentiation, themes and focus areas



*NB on differences in terminology – use of “member,” “owner” and “customer”: Based on the results of our scan, an underlying theme surfaced that mutuals globally refer to policyholders as members, which implies both customer and owner. Customer is the underlying policyholder who interacts with the organization’s insurance product and its direct and indirect services, thus accruing benefits in their day-to-day lives. Owner is a stakeholder concerned with the governance, strategic and financial direction of the organization. This distinction is reflected throughout this document.
Note that our mutual framework also evolved as a result from policyholder engagement to member engagement (to imply focus on both customer and owner).

The four principles of mutual differentiation defined

1

Driving a purpose-led strategy is rooted in long-term thinking and value, over profitability.

2

Being member-centric requires an owner engagement model that is unique from customer engagement.

3

Value creation for core member segments and its periphery is critical to achieving growth and innovation.

4

Social and economic change across local communities and underserved segments is fundamental to brand and purpose.

Principle 1

Driving a purpose-led strategy is rooted in long-term thinking and value, over profitability

Principle 1: underlying themes

Principle and underlying themes 1 Driving a purpose-led strategy is rooted in long-term thinking and value, over profitability	Member engagement	Financial benefit	Community orientation	Value-add services	Governance and structure	Product/policy differentiation	Portfolio strategy	Innovation
• Long-term value orientation: Purpose-led strategy and operating model reflect community giving and focus on four pillars: human wellness, member value, societal impact, ecosystem productivity.			✓			✓		✓
• Operational initiatives and activities reflect purpose-led strategy: Activities are designed to embed purpose-led strategy and four pillars in value creation through value-add services focused on increasing engagement and experience of members and filling a service need in the community, over revenue generation.	✓	✓	✓					
• Measurement of long-term value through strategic KPIs: Four pillars of long-term value are reflected in strategic KPIs, which measure overall impact and are tied to financial results.	✓	✓	✓					

Principle 1: long-term value pillars and corresponding metrics

Purpose, strategy, culture, governance

PILLARS	FOCUS AREAS	METRIC CATEGORIES	VALUE DRIVER	VALUE
Human wellness	Human capital deployment Employee health Organizational culture	• Training hours • Performance reviews • People surveys • Wellness participation	Lowers employee cost	Expense ratio
Societal impact	Environment Regulatory Ethics	• Socially responsible investments • Foundation grants • Real estate certifications • Community affinity • Percent of charitable giving • Diversity percentage	Drives employee and customer affinity and mitigates risk	Cost avoidance
Member value	Innovation/growth Consumer trust Consumer health	• NPS growth percentage • Customer satisfaction • Innovation metrics • Total net trust score	Increases customer affinity resulting in market share and pricing power	Market share/sales Profit from operations Underwriting margin
Ecosystem productivity	Distribution productivity Invested assets Ecosystem	• RBC ratio • Distribution costs • Investment returns • Percent of start-ups in ecosystem • Strategic data ROI	Maximizes capital usage, optimizes distribution costs and enhances employee productivity	Net investment income Liquidity and FCF Capital optimization

Principle 1: common value-add services provided by mutuals and stock carriers

Canada

- Loss prevention review and recommendations for members
- House call policy sales
- Wealth management
- Retirement planning
- SME risk assessment and coaching

US

- Roadside assistance – standard with all auto policies (personal and commercial)
- Retirement planning and banking/asset management – limited, with many mutuals exiting these services due to complex regulatory requirements and capital
- Supplemental accident and health

UK

- Financial advice and planning and education
- Health and wellness counseling
- Legal advice
- Support to customers in extraordinary situations
- Travel agency services
- Well-being programs

France

- Financial planning
- Investment advice
- Home surveillance
- Notification of weather events and prompts to change travel plans or secure their property

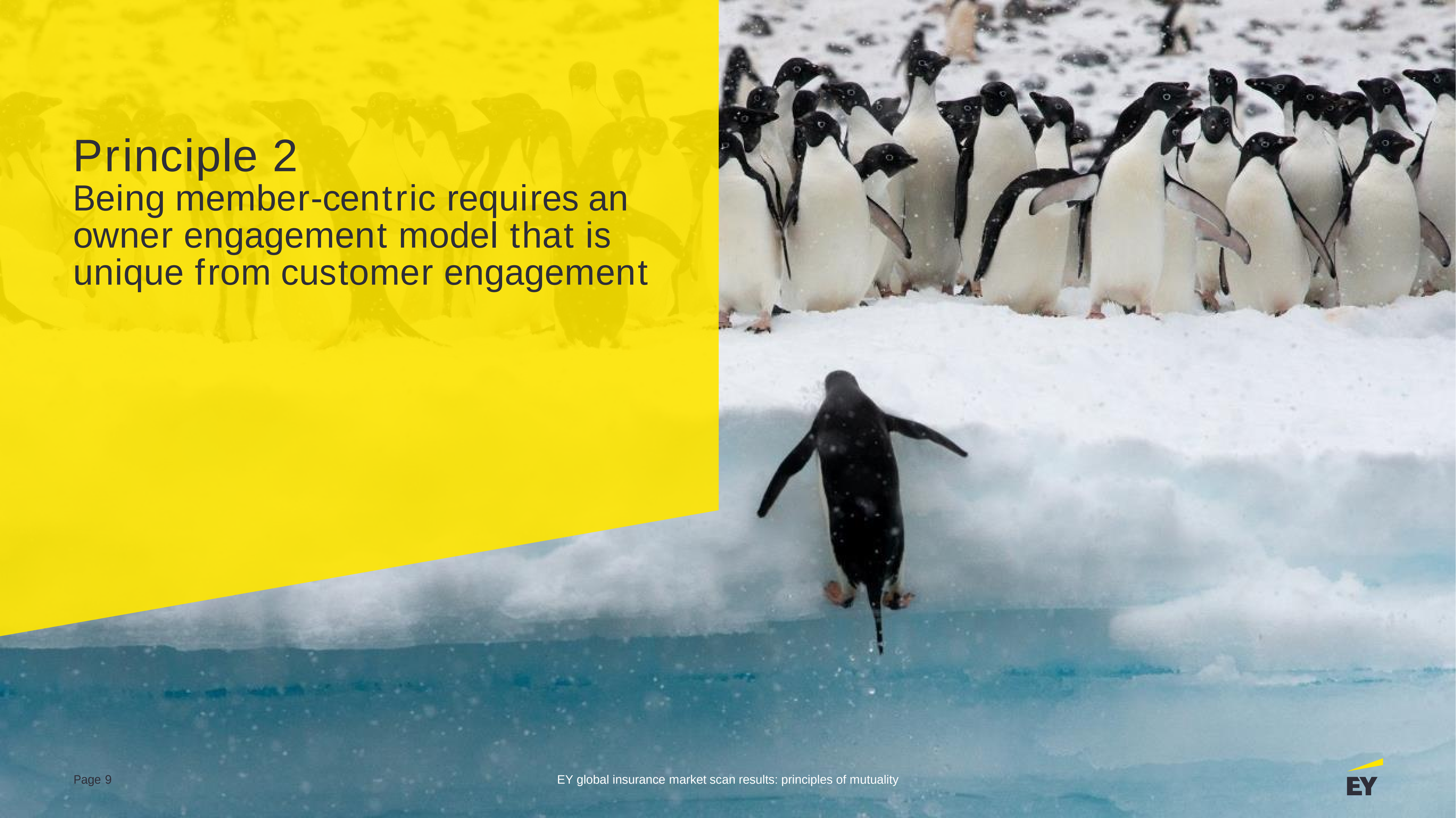
Switzerland

- Financial advice and planning
- Retirement financial planning and advice to dependent survivors of their life and pension insurance products
- Risk advice for commercial and service companies
- Legal advice (personal and business)

Australia

- 24-hour legal assistance
- Professional development opportunities (professional workshops, webinars)
- Well-being programs
- Roadside assistance with free installation of tires and batteries
- Home/car repair service
- Risk management services (medical professionals)
- Provide environment where medical professionals can share risk experiences

Principle 2
Being member-centric requires an owner engagement model that is unique from customer engagement



Principle 2: underlying themes

Principle and underlying themes	Member engagement	Financial benefit	Community orientation	Value-add services	Governance and structure	Product/policy differentiation	Portfolio strategy	Innovation
2 Being member-centric requires an owner engagement model that is unique from customer engagement								
• Engaging members and community within governance decisions: Incorporating members and community perspective into governance decisions promotes stronger engagement and better focus on changing community needs, which promotes quicker product and portfolio adaptation.	✓		✓		✓	✓	✓	
• Separate engagement strategies: Mutuals often refer to their members as both customer and owner. However, there is a clear difference between owner and customer as stakeholders, with differing engagement strategies.	✓	✓			✓			

Principle 2: owner-centric and customer-centric strategies

A mutual member is both a customer and an owner; in mutual organizations, there are distinctions between owners and customers – particularly their offerings and privileges – that exemplify a key source of differentiation.

Customer centricity is fundamental to remain a competitive player in the insurance market, for non-life and life products and provide short-term shareholder return. It is core to driving a seamless and engaging experience through the value chain (e.g., underwriting, claims, post-claims) for members that purchase and own mutual products. However, this is not a differentiator of mutuality.

Mutual “member”

	Customer-centric	Owner-centric
Engagement	• Continuous customer journey engagement from underwriting to claims • Focus on improving the experience across product acquisition, renewal and ongoing claims services • Communicate new products and process changes • Do not involve members in decision-making • Decline customers that are high risk or perceived as unprofitable members	• Part of governance structure • Accept unprofitable members • Communicate strategic plans • Involve in decision-making • Engage at annual general meetings • Select tier of owners involved in governance decision
Financial benefits	• Premium reductions • Internal discounts • External discounts	• Cash dividends • Surplus allocation to tier of members • Internal discounts • External discounts

Owner centricity is what differentiates mutuals, enabling these carriers to overtly leverage mutuality in their brands to distinguish them from others that “focus on the customer.” This centricity manifests as seeing the member as an owner and taking a longer-term focus, including involving members in decision-making around strategic direction, and maintaining a more not-for-profit mindset.

Principle 3

Value creation for core member segments and its periphery is critical to achieving growth and innovation

Principle 3: underlying themes

Principle and underlying themes	Member engagement	Financial benefit	Community orientation	Value-add services	Governance and structure	Product/policy differentiation	Portfolio strategy	Innovation
3 Value creation for core member segments and its periphery is critical to achieving growth and innovation								
• Financial benefit and value creation: Member financial benefit should have strong focus on three areas: 1) surplus distribution to owners; 2) cash-back to customers; and 3) post-claim cost savings through partnerships.	✓	✓	✓					
• Distribution of financial benefits enables differentiated ownership structure: Segment members based on affiliation with specific groups and increase distributions of financial benefits to tiers of members aligned to purpose-led strategy.	✓	✓	✓		✓	✓	✓	

Principle 3: tiered customers

Several mutuals identify tiers of customers based on the profitability of the products they hold and reward their high-value customers with surplus allocation.

Value of tiering

Tiering allows mutuals to identify and reward their most valuable members to increase loyalty and engagement.

Approach

Mutuals identify their high-value members based on current product profitability and perceived lifetime value (leveraging predictive analytics).

Use cases:

- US auto insurer: In addition to regular cash dividends, the company provides surplus allocations to member tiers dependent on the product held. In 2018, provided auto policyholders with a 5% credit on policy renewal, as well as a special 5% cash allocation.
- Large Swiss mutual insurer: Redistribute non-life profits on a two-yearly schedule, alternating between allocating a share of their profits to motor insurance policyholders one year and to third-party liability/property insurance the next year through premium reductions.
- Large British mutual: Each year the board decides whether a dividend should be paid and which members should receive it, based in part on the product class held by the member.

Principle 4

Social and economic change across local communities and underserved segments is fundamental to brand and purpose

Principle 4: underlying themes

Principle and underlying themes	Member engagement	Financial benefit	Community orientation	Value-add services	Governance and structure	Product/policy differentiation	Portfolio strategy	Innovation
4 Social and economic change across local communities and underserved segments is fundamental to brand and purpose								
• Not-for-profit philosophy: This includes focus on one core social issue that is linked to product offering and local-led community sponsorship. This promotes stronger engagement and brand awareness, and is managed through corporate-owned investment framework. Typically, face-to-face distribution is used as a catalyst for local connectivity.	✓		✓	✓		✓		✓
• Serving as a social curator in the community: Mutuals act as a curator between members, local businesses and the community through: 1) sponsorship of local businesses so they can better serve the community, and 2) providing access and coverage to underserved/marginalized segments.	✓	✓	✓					

Principle 4: social KPIs to measure impact on marginalized communities

Examples of social KPIs that can be used to measure the impact of initiatives on different underserved community segments.

Percentage of insured below poverty line

Measures the number community members insured below the poverty line. Social impact of the initiative can be measured pre-/post-initiative.

Percentage of minorities insured

Measures the contribution of insurance to equality among minorities. Can be measured pre-/post-initiative to assess impact.

Percentage of insured at retirement age or above

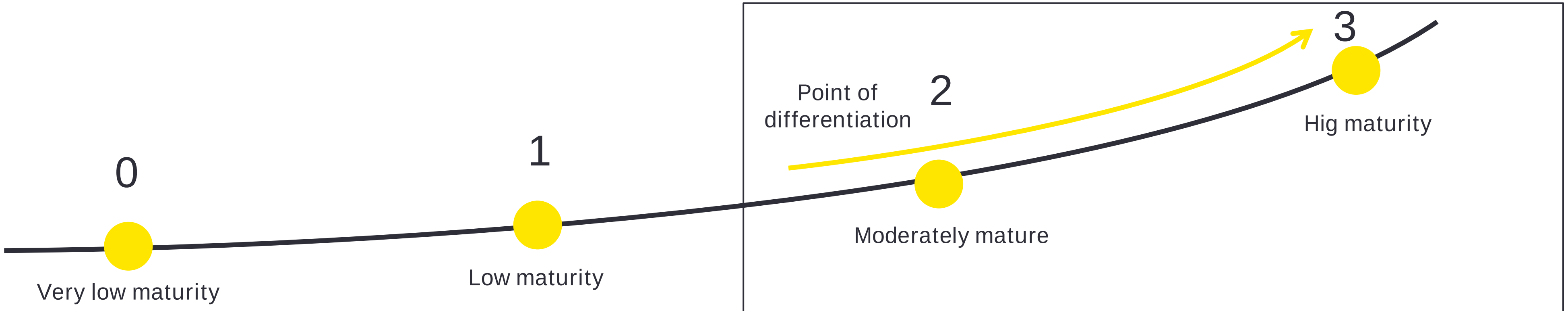
Individuals above the age of retirement are often excluded from insurance services and more likely to fall into poverty after a disaster due to difficulty in finding work. Measuring the percentage of insured at retirement age or above assesses the social impact of the initiative on this community segment.

Social investment ratio

Measures the amount of resources an insurance provider dedicates to information, education, communication and prevention in the local community, for which no direct financial returns are expected.

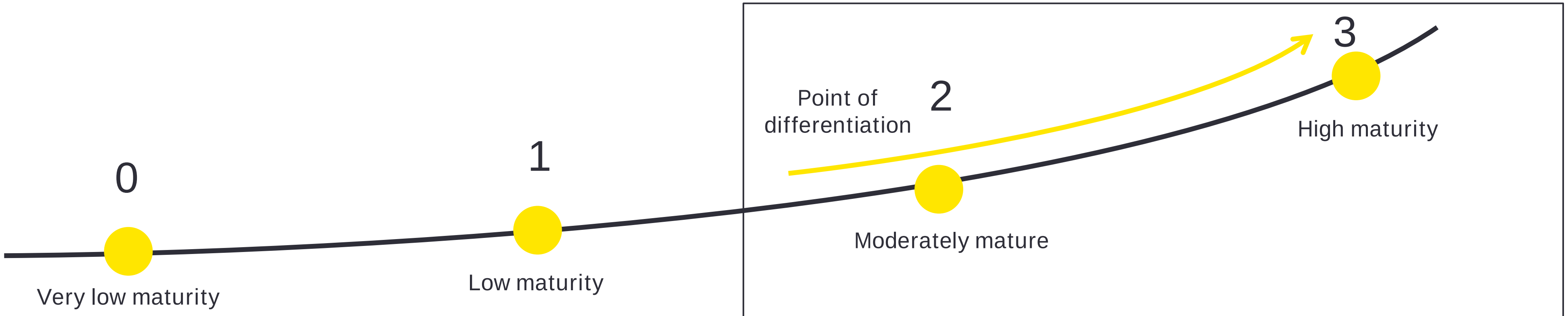
Mutuality maturity model and market-level assessment

Mutuality differentiation maturity model



Core competencies				
Community orientation	• Community orientation is not a primary focus and does not align with the core purpose and values of mutual.	• Minimal partnerships/charity involvement/engagement strategies. • No core social issue in focus.	• Partnerships/charity involvement/engagement strategies present with core social issue identified.	• Partnerships/charity involvement/engagement strategies present. • Core social issue is center of focus; company aims to engage globally, as well as locally.
Policy and product differentiation	• Product offerings are purely commodity based. • Policy offerings are standardized across customers.	• Product offering provides some level of addressing member needs • Innovation is not a focus for the company (products are static with minimal customization).	• Products are tailored to niche customer needs. • Company looks to revise products through a periodic innovation process based on their understanding of market preferences. • Pricing is not based on class of member.	• Ongoing innovation in the product strategy to address needs of the market based on the preferences of their niche members with pricing; decisions based on class of member • Needs of clients are anticipated and addressed by company through ongoing innovation cycle and engagement.
Value-add services	• Value-add services are not present or are not targeted to specific needs of customers. • Services offered are not strategic in terms of company purpose or values.	• Limited value-add services offered, services offered do not comprehensively address customer needs.	• Value-add services align with product offerings and company purpose and strategy.	• Value-add services are targeted to customer needs and return on investment is considered by the company. • Services offered contribute to an increase in member engagement.

Mutuality differentiation maturity model



Core competencies				
Member engagement	• No mutual branding; member engagement strategy is unclear. • Member engagement is not core focus for the company. • Differentiation not there between member and owners.	• Low level of mutual branding. • Company does not leverage mutuality to engage with customers.	• Moderate level of leveraging the principles of mutuality differentiation for branding and awareness. • Company engages with customers, but engagement is not strong.	• High level of leaning on the principles of mutuality for branding and awareness. • Company leverages mutuality to engage with customers. • Company aims to understand member needs by communicating with them and looks to engage with them when implementing company changes.
Financial benefit	• Financial benefits are not a focus for the company; limited or no financial benefits offered.	• Financial benefits have been given in the past, but no recent cost relief efforts have been made.	• Financial benefits given, but payments (or cost relief) are inconsistent.	• Consistent financial benefit given (i.e., cash, dividend or cost relief). • Financial benefits improve member engagement and align with company strategy.

Mutuality differentiation: market maturity assessment

Market maturity assessment:

- A maturity assessment was conducted for the six identified deep dive regions.
- The assessment utilizes a scale of 0-3, with 0 representing the least mature (see maturity scoring criteria), to determine the level of maturity within each respective market.
- Comparability ranking: In addition to maturity scoring, each market is ranked in terms of comparability to the Canadian market, as seen within the market relativity scoring matrix
- E.g., As Canada is most similar to the UK and Switzerland, community orientation and value-add services are two areas in particular where the Canadian market currently lags behind, as indicated in the heat map to the right.

Core competencies	Canada	UK	Switzerland	US	France	Australia
Comparability ranking*	-	1	2	3	4	5
Community orientation						
Policy and product differentiation						
Value-add services						
Member engagement						
Financial benefit						

* 1 indicates highest comparability on a scale of 1-5 as indicated within the market relativity scoring matrix

** Markets were evaluated based on the maturity scoring criteria

Low maturity Moderate maturity High maturity

Endorsement from the International Cooperative and Mutual Insurance Federation (ICMIF)

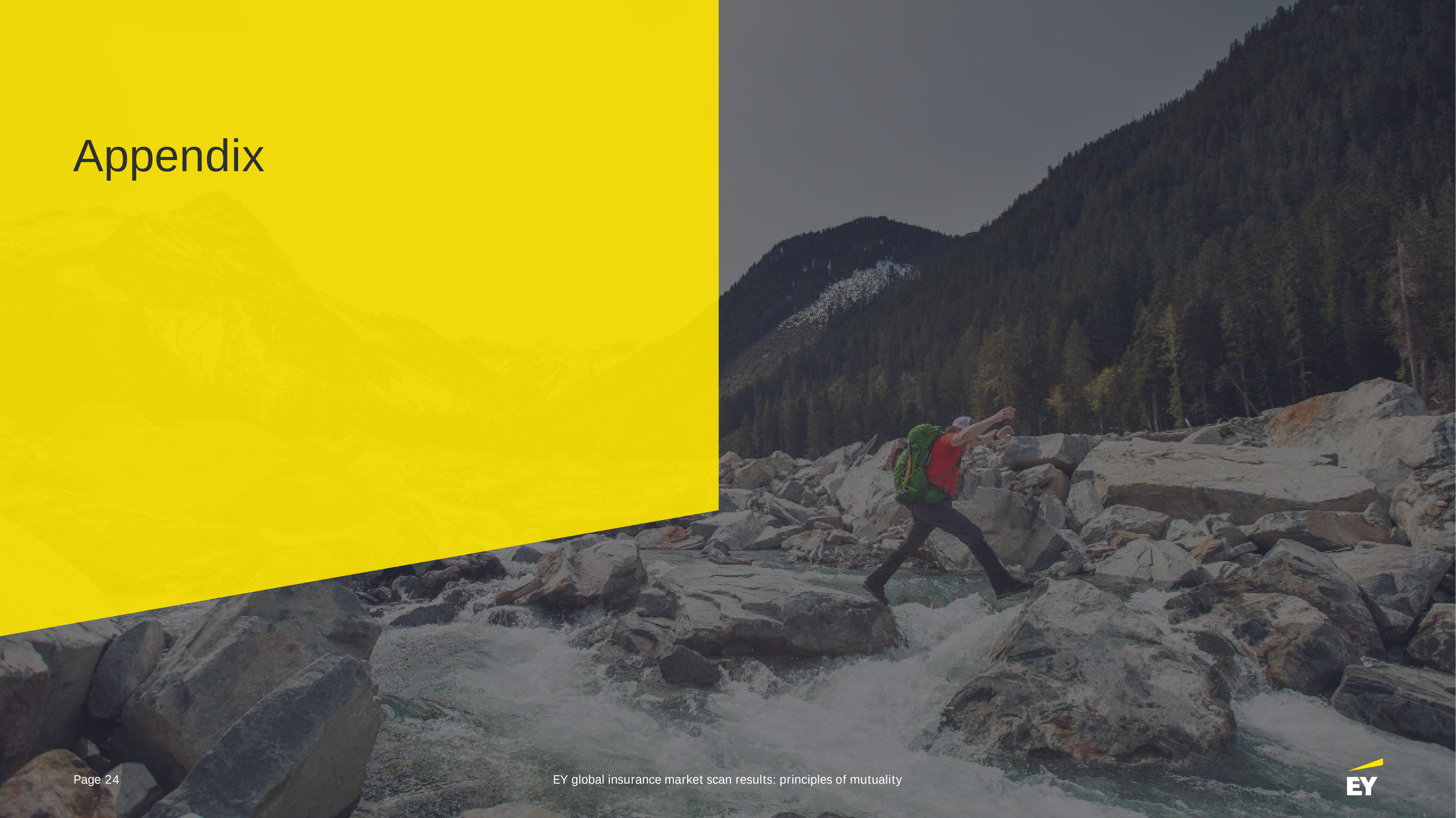
A message from Shaun Tarbuck, Chief Executive Officer, International Cooperative and Mutual Insurance Federation (ICMIF), about our research:

“Mutuals, now more than ever, play a significant role in the rapid levels of innovation and growth taking place within the global insurance industry. It is welcoming to see EY’s Global Insurance Mutual Market Research report reflect this. The mutual/cooperative insurance sector represents 27% of the global insurance market by premiums and was the fastest-growing part of the global market in the 10-year period following the onset of the global financial crisis.* Mutuals around the world are demonstrating how a purpose-led strategy enables them to differentiate themselves and continue to drive growth and value in the post-pandemic world.

I believe that the four principles of mutual differentiation as defined in this report reflect some of the ways in which ICMIF members and the rest of the mutual insurance sector set themselves apart and have a unique offering for their members and the communities they serve. As a “Supporting Member” of ICMIF, our partnership with EY presents an exciting opportunity to bring added value to our members around the world with a specific mutual or cooperative focus.”

*Source: ICMIF Global Mutual Market Share 10

Appendix



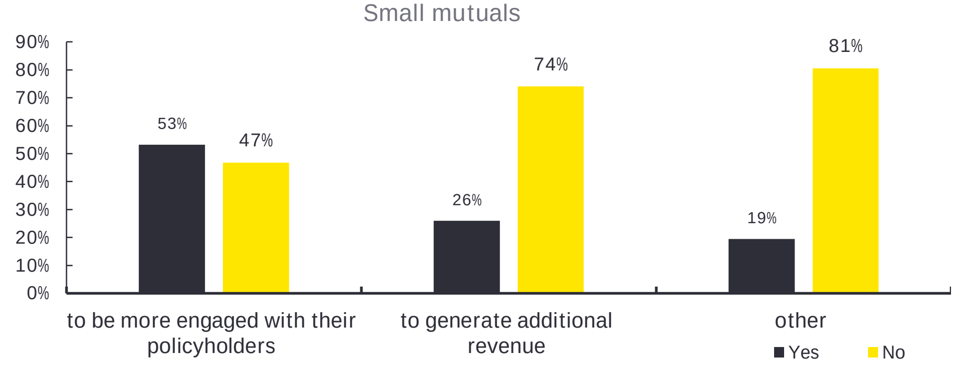
EY global benchmarking survey: key findings

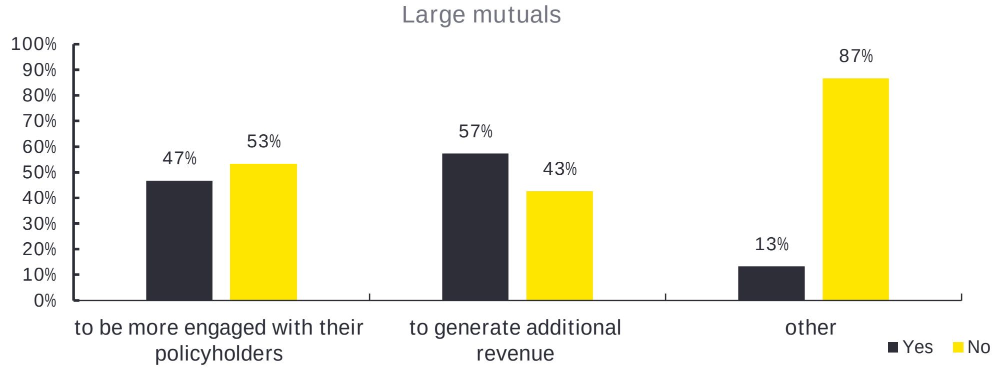
Findings from a global survey of SMAs on various topics related to the insurance industry

67% of respondents agreed that mutuals use their mutuality to differentiate themselves from competitors.

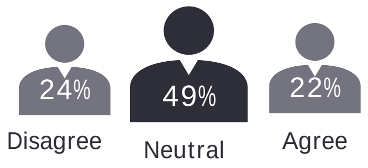
60% of respondents agreed that mutual companies see owners and customers as separate stakeholders with different needs.

Drivers for mutuals to provide value-add services (e.g., financial advice, advisory services to SMEs, etc.) to their members:



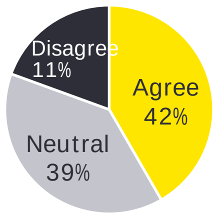


Responses varied around whether mutuals moved from private member ownership to a new structure because of financial constraint over strategic choice.



Responses were neutral on the theory that mutuals will cancel their policy with customers or not renew if they are perceived to be unprofitable or have risk that cannot be priced for. Yet in the Asian market, mutuals are less likely to cancel members if they are perceived to be unprofitable (45% disagree, 18% neutral).

Small to medium-sized mutuals who have grown beyond their original customer or product niche are able to maintain their mutual identify.



51% of respondents agreed (28% neutral) that mutuals select their community initiatives by measuring either the direct or indirect return on the investment (ROI).

52% of respondents agreed that mutuals have a portfolio strategy based on assessment of lifetime value of their customers.

Deep-dive investigation: six markets

	Canada	UK	Switzerland	US	France	Australia
Rank*	n/a	1	2	4	7	10
Justification*	Profile: • The mutual market occupies ~19% of the total insurance market. • A mixed market portfolio between larger and smaller mutuals, which will direct analysis toward the choices and constraints that make certain mutuals expand and others stay small. • The mutual sector has invested moderately in innovation within its distribution strategy and product strategy. • Broadly, mutuals moderately utilize their structure to position themselves in the market, with the smaller mutuals generally having higher engagement with their communities and policyholders. • Within the country, a high level of regulation is seen over insurance products, underwriting and pricing for risk.	Selected due to: • Comparable mutual market share with similar mutual structure (100% owned by policyholder). • High leverage of unique purpose and values to position mutuals in the market. • High community and policyholder engagement of mutuals. • Moderate level of market innovation to be considered in deep dive.	Selected due to: • Comparable mutual market share and 2022 market growth trajectories. • High leverage of unique purpose and values to position mutuals in the market. • High community and policyholder engagement of mutuals. • Financial health is comparable in each market with strong COR and loss ratios.	Selected due to: • A mixed portfolio of mutual in the US between very large and smaller subset, allowing for healthy comparisons on constraints and choices that have made some mutuals more successful and unsuccessful and the influence of size. • Comparable leverage of unique purpose and values to position mutuals in the market, complexity and influence of regulation, and innovation. • Differences around financial health with a stronger COR ratio in Canada compared to the US (96% vs. 104%). • Difference in structure and funding with a mix of MIHC and private mutuals in the US.	Selected due to: • Mutual market share occupies ~50% of the total insurance market within France, ranking 3/11 of the countries studied. • The funding structure of mutuals in the market provides unique comparisons. • While the regulation and financial health of the country are deemed moderate, the level of innovation is high, with considerable investment growth. • Mutuals leverage their unique purpose to position themselves in the market and have moderate engagement within their communities and with policyholders.	Selected due to: • Smaller mutual market share in Australia, but higher leverage of unique purpose and values to position mutuals in the market. Policyholders are highly engaged with the companies when it comes to the decision-making process. • Innovation within the Australian market is deemed high, but seen as inconsistent with a lack of focus into one area.

*Rank based on the EY comparability score (refer to pages 19- 20)

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Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

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