Evolution of Mutual Insurance Companies: Balancing Tradition with Modern Challenges

Can the mutual holding company (MHC) structure give customer-owned insurers the capital flexibility they need today while keeping ultimate ownership in the hands of policy-holders, or does it mainly prepare them to become stock companies later?

The dissertation by Alexis N. Muench examines all eighty-five U.S. property-and-casualty mutual insurers that adopted the mutual holding company (MHC) structure between 1995 and 2023, comparing them to a broader set of insurers that retained the traditional mutual structure. Mutual insurers today face rising pressures from increasingly frequent and severe catastrophic losses, rapid technological change, and complex regulatory demands, yet they cannot issue ordinary shares to raise additional capital. The MHC structure allows a mutual insurer to reorganize, maintaining policyholders' ultimate voting control, while establishing a downstream stock subsidiary that can issue shares to outside investors, provided the mutual holding company retains at least fifty-one percent of the voting rights.

Using probit modeling to determine which financial characteristics predict conversion and a dynamic difference-in-differences analysis tracking ten financial metrics for five years before and after the switch, the research finds that mutuals with lower surplus-to-asset ratios, slower premium growth, and higher expense ratios are significantly more likely to convert. Following conversion, these insurers experience reduced operating ratios and increased underwriting income. However, surplus-to-asset ratios, combined ratios, and premium growth do not show statistically significant improvements. Additionally, dividends paid from the insurer to the holding company remain stable initially but increase sharply in years four and five after conversion, indicating that surplus may be redistributed through the holding structure for other purposes.

Finally, a separate topic-model analysis of official conversion filings reveals that management primarily emphasizes improved capital access, greater governance flexibility, and regulatory compliance, rather than ambitious expansion strategies.

MAJOR TAKEAWAYS:

- Mutual insurers facing financial pressure, slow growth, and high operating costs are most likely to adopt an MHC.
- Five years after converting, insurers improve efficiency and underwriting income, while surplus levels, premium growth, and combined ratios remain basically unchanged.
- Dividends to the parent holding company increase sharply after year four, potentially shifting capital away from policyholders and requiring careful oversight.

WHO NEEDS TO KNOW:

- Insurers
- Regulators
- Advisors

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