Exploring Competitiveness in Property and Casualty Mutual Insurers

Master's Research Project

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“Patrons you cannot afford to pay these high premiums to joint stock companies. Insure yourselves and keep some money at home. Commercial companies wasted seven-tenths of the premiums: this immense sum is an annual gift from the hard work people to a set of sharpers who ridicule us for our stupidity while reveling in luxury on our hard earnings.”

- Farm Bureau Insurance Companies Advertising Poster (Schneiberg et al. 2008)

Introduction

The Maritime Provinces in Canada consisting of New Brunswick, Nova Scotia and Prince Edward Island are economically disadvantaged compared to the Canadian average. Colloquially they are known as 'have-not provinces' due to their heavy reliance on transfer payments to make up shortfalls in provincial budgets. Additional economic indicators that show the underperformance of the region's economy include dismally high unemployment rates, among the lowest after-tax median incomes in Canada and employment participation rates which are lower than the national average. The tables in Appendix A provide specifics of this information but for the purposes of introducing this research it is sufficient to say that the Maritime economies in Canada have to make significant gains to close the gap with wealthier provinces.

One explanation for this underperformance is that the economy in the region is extractive, meaning that firms in the area are trying to extract profit from the region without necessarily adding value, or not adding value as their primary motive. In order to be economically viable and to maintain the region's current distribution of population in semi-rural areas, this region needs to consider market alternatives that are generative rather than extractive. Generative in this case refers to firms whose primary mission is to provide services to their user group rather than seek maximum profit. This will help the region hold onto more employment and generate more capital that can be reinvested locally (Kelly 2012).

One potential area of opportunity is for consumers to choose cooperatively owned financial institutions that retain capital and create employment in the Maritime provinces. Traditional regionally focused financial institutions have been cooperative in nature and include, caisse populaires, credit unions and mutual insurance companies. Although these institutions are some of the oldest cooperatives in the province with an average age of 60-years they are not the first choice for the Maritimes' population (Theriault, Skibbens, and Brown 2008). Traditionally, cooperative financial institutions have centered around specific communities (affinity groups), either linguistic, religious or industry, and have lacked broad appeal compared to national options (Theriault et al. 2008). Even today, the majority of cooperatives across the Canadian landscape have a tilt towards the agricultural sector and rural areas (Mook, Hann, and Quarter 2012a). These financial cooperatives are alive and well in the region but have not strayed far from their affinity groups, meaning the vast majority of customers are served by shareholder owned financial corporations which are generally not locally domiciled and do not significantly invest in the region beyond their operating expenses.

It is up for debate whether the Maritime provinces are being served well by the current mix of financial institutions available. However, it is clear that the majority of decision-making regarding banking and insurance premiums is made outside of the region. This applies primarily to large national institutions who maintain minimal presence in communities and use a centralized model where decision making and capital deployment is done in major Canadian centres, in particular Toronto and Montreal. Visible symptoms of this can be seen in many communities, including bank branches replaced by automated teller machines and in news headlines announcing premium increases for property and casualty insurance products(Smith 2020). There are a number of other less visible symptoms as a result of the primacy of national centralized financial institutions in the region. These include availability of credit, product pricing that is not regionally appropriate and the loss of good financial services jobs to superstar regions such as Montreal, Toronto and Vancouver. These less visible symptoms can create a ‘ripple effect’ that negatively impact the health of the regional economy.

The current state of financial institutions in the Maritime provinces is not set in stone, and in fact many Maritime communities have long histories of financial self governance through community owned financial organizations such as credit unions, caisse populaires, benefit paying fraternal organizations and mutual insurance companies. These institutions, that are based on cooperative principles, are enabled through legislation and are perfectly suited to provide personal and small commercial financial products. Additionally, using these decentralized types of organizations addresses the visible and invisible symptoms of economic inequality due to centralization. This requires a financial sector that makes a higher contribution to GDP in the region, as of 2018 financial services accounts for approximately 5.6% of GDP in the Maritimes compared to 6% in Quebec and ~10% in Ontario (Statistics Canada, 2018). This is an essential element of discussing cooperatives in relation to addressing economic underperformance. The point is not to create a utopian sector that operates for the benefit of all people (it would be nice) but rather to have organizations in the region that are committed to their business’ success but also have a stake in the financial viability of the region.

In Spain and in Italy cooperatives have been successful in fostering business networks and entrepreneurial ecosystems particularly in the Basque region of Spain and Emilia Romagna region in Italy (Restakis 2010). One of the assumptions that underpins this research is that the financial institutions operating on a cooperative basis are operating as any other business would, with or without a profit motive, to meet their business objectives, and also that those objectives are more in line with local economic growth (Kelly 2012; Restakis 2010).

There has been a number of studies conducted in this area of research, particularly on credit unions and caisse populaires, by research centres at Saint Mary's University and the Centre for the Study of Cooperatives in Saskatchewan among others. However, property and casualty (P&C) insurance has not been as widely explored. P&C mutual insurance companies represent a significant opportunity for communities to use the capital that they are using to pay insurance premiums for their own benefit, as there are presently seven domiciled mutual insurers operating in the three Maritime provinces. P&C insurance is defined as non life insurance which provides coverage for "damage, bodily harm or incidents affecting business procedures and resulting from external factors or unintentional behaviour by the policyholder: accident, fire, water, legal action, natural disasters, [and other perils]" (Grant 2012:12).

The opportunity lies in the fact that these institutions are apparently underweight in the market, as they have a combined market share of less than 4% of the personal and small commercial P&C insurance market which is made up of automobile insurance and property insurance (MSA 2020). This volume is almost exclusively in the personal property segment made up of homeowner and farm insurance, where the companies make up approximately 5% of the market. A market share analysis of the region and comparatives will be provided in a subsequent section, however as an introduction it is sufficient to note that the seven provincially domiciled mutual insurers are missing out on the vast majority of the $1.9Bn marketplace for products that they are able to provide (MSA 2020). The size of the market is not the only attractive feature of studying these entities for their potential economic impact, but one must also consider that P&C mutuals are relatively simple to operate compared other types of financial institutions and due to the evolution of insure-tech, distribution methods and reinsurance strategies can be made competitive against larger national shareholder owned insurers. There is also the opportunity to capitalize on the growth that P&C mutual insurers have had since the 2008-09 financial crisis. Customers have made the ‘flight to quality’ driving mutual insurers to grow in excess of 20% globally between 2009 and 2015, as customers looked for alternatives to institutions perceived to have caused the economic crisis (ICMIF 2018; Swiss Re Institute 2016).

In the following sections of this research paper, P&C mutual insurance and its regional impact will be explored through a literature review that centers on the research that has been done on insurance, the impact of cooperatives, and mutual insurers specifically. Following this, a Canadian market context for mutual insurance will be provided with a focus on Manitoba, Quebec and Ontario’s experience supporting a network of cooperative insurers and through the lens of competitiveness and market share. Finally, the findings from the first two aspects of the research will be tested through interviews with industry leaders in order to validate the findings and determine preliminary recommendations to enhance the competitiveness of seven mutual insurers in the Maritime provinces which will be relevant to other small mutuals in Canada as well.

Research Questions

As this research is largely qualitative and will be focused on gaining new insights into an existing market and discovering themes related to economic impact, these five research questions are meant to limit the research to manageable scope and inform the three sections of this report.

1. What environmental factors are present where a mutual insurance company is competitive as defined by profitably growing its business and attracting new customers?

2. Do successful regionally focused mutual insurance companies have a positive economic impact on the regions they serve?
3. What factors determine the competitive efficiency of mutuals and does this determine their economic impact?
4. What are the opportunities to grow these entities?
5. What strategies and policies can increase the impact of mutual insurance companies on their surrounding communities?

Literature on Insurance

The role of financial services in economic development has been debated since Joseph Schumpeter proposed the idea in 1911: in particular whether or not a robust financial system follows growth of the overall economy or vice versa. However, more recently, the role of financial services in intermediation of capital has been accepted as driving growth in most circumstances, as resource allocation in capital accumulation appears to play an important role (King and Levine 1993; Skipper n.d.). Most of the research that has been done on this subject focuses on banks, specifically lending and capital markets growth in regards to their relationship to economic growth. The study of the impact of insurance firms has been more limited (Haiss and Sumegi 2006; Skipper n.d.; Webb, Grace, and Skipper n.d.). This isn’t surprising as in his article “The Invisible Hand of Insurance” Hans Peter Wurmli states that insurers would lose popularity contests with banks even in light of the 2008 financial crisis. Anecdotally this would appear true for P&C insurers in general, as it is not uncommon for insurance clients to be unaware of the name of their insurer or details of insurance products that have been purchased. This low profile is driven by the relative stability of the insurance industry globally, both in life insurance and property and casualty, but has not motivated much interest from academics or the public (Würmli 2011).

However, the relative obscurity of the benefits of the insurance are hardly due to the public's disinterest or stability according to the literature. The insurance community has failed to communicate its value proposition including its skill, knowledge and expertise and design to be considered the key player that it is in the economic system (Würmli 2011). In very brief terms, insurance provides peace of mind and financial stability. Insurance has an important role to play in both the social and economic development of communities. Insurance provides a sense of security, peace of mind, incentive for loss mitigation and increases prosperity according the Geneva Association, which is a an industry led think tank based in Switzerland (Grant 2012). Insurance also makes the reality of risk clear through information and pricing signals performing an important education function within society. By making communities aware of risks in this way, it encourages de-risking some activities and lowering social costs. Simple examples of these are workplace insurance boards or automobile insurance.

In addition to the societal benefits, more tangible and measurable economic benefits include reducing future financial risks, and ensuring the availability of credit products. Insurance provides certainty of paying a defined amount that protects against undefined financial loss in the event of a misfortunate event, meaning that future loss exposure is reduced. This function of indemnifying an insured person or business for a loss provides the needed guarantee for other financial intermediaries to advance credit. Examples of this include mortgages, business loans and other productive economic activities (Grant 2012).

Insurance is often a precondition for productive economic activity such as purchasing a home or expanding a business. This is achieved as insurance manages, diversifies and absorbs the risk of individuals and companies (Grant 2012; Skipper n.d.). The Geneva Association also notes that insurance companies were also built in a complementary fashion to banks as they are large institutional investors who help make markets liquid by directing the accumulated savings of their client community into productive investments that have a positive market impact. These savings come in the form of life insurance investment products, and to a somewhat lesser extent, money held in reserve for paying claims and policyholder/shareholder surpluses within property and casualty firms (Skipper n.d.; Webb et al. n.d.) This function, which is common to many financial services firms including pension plans, reduces the number of unproductive assets and mobilizes domestic savings. This is important to increasing overall productivity of an economy (Grant 2012; Würmli 2011). In his 1908 book *Other People's Money and How Bankers Use It*, Louis Brandeis also discusses how banks use insurers as tools for productive investment, although with less enthusiasm than other cited academics.

Additionally, the stability of this system builds long-term prosperity, as trust in the system unlocks long-term savings and investments. This adds depth to the economy by distributing it to government bonds equities, corporate bonds and real estate. These long-term investments effectively provide real economic funding for growth. Especially when one considers that these types of investment are often channelled into job creating projects and productive sectors (Grant 2012; Ward and Zurbruegg 2000; Weisbart n.d.).

Finally, insurers have a direct financial impact on the economy through employment, the purchase of additional services and contribution to the tax base. Particularly in the Canadian economy, property and casualty insurers have a large impact through employment as the combined insurers have 128,000 employees. Overall employment in the entire insurance industry has increased by 9.4% since 2012 (Insurance Bureau of Canada 2019). The industry also creates spin off economic activity through purchase of additional services such as IT, auditors, financial intermediaries and claims service providers (Grant 2012).

Other relevant literature includes how insurers compete and their relative efficiency particularly those papers that provide a comparison by ownership form. Fier and Liebenberg reviewed insurer growth strategies in the United States through the lens of ownership structure. They determined that there are three strategies an insurer can employ to grow including: entering new territories in their own geographies, expanding to new states and acquisitions (2017). The authors also note that these strategies are generally used in order of ascending complexity where firms start with expansion to new territories, then new lines, followed by merger activity. Complementary to this are the components of an insurance company that are considered as part of competitive make up and these include pricing decisions, use of capital, interaction with regulation, distribution and organizational form (Dionne and Harrington 2017). Efficiency discussion are primarily discussed using data envelopment analysis (DEA) methodology and compares the relative efficiency of insurers (Cummins, Weiss, and Zi 1999).

Literature on Cooperatives

The next section will discuss mutual insurers specifically; however, it is important to discuss the general cooperative landscape from the Canadian and global perspective to understand the role that mutuals play compared to other types of cooperatives. Cooperatives are member owned organizations that are set up to meet the needs of its members. General types include consumer cooperatives where members purchase products or services from an owned entity, and producer cooperatives where producers own a common form of distribution. Industry Canada defines cooperatives as “a legally incorporated corporation that is owned by an association of persons seeking to satisfy common needs such as access to products or services, sale of their product or services or employment” (2015). As of 2018 there are 5,846 cooperatives across Canada in 14 sectors. The largest of these are in agricultural while the education sector has the largest number of cooperatives (Treasury Board of Canada 2019). Cooperative ownership has historically been more prevalent among the agricultural population and in rural Canada (Duguid and Karaphillis n.d.; Mook et al. 2012a). As of 2015, there were approximately 9.1m Canadians who were members of a cooperative (Government of Canada 2015).

The main difference noted between a cooperative and mutuals is noted as the frequency of use, in that a cooperative is generally used frequently to meet a societal need while a mutual is general protection against an unfortunate event that would negatively impact community members or the community as a whole (Lafleur and Merrien 2012). For the purposes of categorization, mutual insurers are considered consumer cooperatives. Cooperatives in Canadian literature are further delineated between financial and non financial cooperatives (Duguid and Karaphillis n.d.; Karaphillis, Duguid, and Lake n.d.). Credit unions, which are cooperative banks, are the dominant financial cooperative structure in Canada, particularly with large players like Desjardins, National Bank and Vancity credit union. The majority of cooperative literature in financial services focuses on credit unions. Non-financial cooperatives include any number of businesses, from cooperative consultant firms to laundry service providers. However, the overall cooperative sector in Canada is closely connected with the agricultural sector, and is skewed towards Quebec and Western Canada. As previously stated, historically, many forms of cooperatives were formed by specific affinity groups, such as those farmers, union members, religious groups and parishes, linguistic or regional groups (Marshall n.d.; Restakis 2010; Theriault et al. 2008). Often, cooperatives have been more successful when linked to a social movement. A good example is the Grange movement during the progressive era in the United States, where it used common ownership of agricultural infrastructure to combat excessive pricing by railroad movements, and eventually giving midwestern farmers a strong political voice through outlets like the populist party in throughout the United States (Schneiberg, King, and Smith 2008). Sufficed to say that cooperatives are more heavily represented in rural areas (Maiorano, Mook, and Quarter 2017; Mook, Hann, and Quarter 2012b). In short cooperatives were often created in rural areas to address collective action problems (Schneiberg et al. 2008).

Despite the broad range of services, focuses and membership types served, cooperatives and mutual share a common DNA of values and principles that connect to an overall purpose of serving their membership and the community. This is in opposition to shareholder owned firms which seek to maximize returns for investors rather than other stakeholders. These principles and purpose do not negate a cooperative’s need to operate like any other business. These values of the cooperative movement include empowerment and mutual responsibility, democracy, equality, fairness and solidarity. Principles of cooperation (Birchall et al. 2009; Lafleur and Merrien 2012; Restakis 2010):

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation

4. Autonomy and independence
5. Education, training and information
6. Cooperation among cooperatives
7. Concern for communities

These values and principles may sometime seem utopian and as noted have risen out of a community's need for self-sufficiency in a particular area. However, despite this seeming virtue, rather it is a matter of cooperatives proposing another relationship with organizations. Instead of a relationship of capital it becomes a relationship of use, through production, work or consumption, and stewardship for the benefit of members. (Kelly 2012; Lafleur and Merrien 2012). In a 2020 podcast interview with the Center for Cooperative Studies, former Center director, Brett Fairbairn, noted that cooperatives should still seek to make a profit to support their own stability and to remember that cooperatives do not make people act in ways they wouldn't otherwise act, and expecting them to is a recipe for disaster (Fairbairn 2018). In short, the literature on cooperatives suggests that cooperatives operate with a sense of purpose rather than a sense of charity, which can be an area of confusion for those on the outside looking in. These sentiments were echoed by the CEO of the Co-operators Group who noted that the primary goal of the insurer was to provide financial security to Canadians rather than maximize shareholder value (Pigeon 2020).

Cooperatives provide a number of benefits to communities because of the way they operate in accordance with their principles. Foremost among these are the stabilizing and regulating effect through cooperatives' ability to create communities of members and employees, to provide local response to changes through crisis events and to maintain (generally) indivisible reserves in communities. As a result of these stabilizing effects cooperatives enjoy a much longer tenure that many shareholders owned organizations do not. As noted by many authors and through study at the Institut de resource de l'économie, social cooperatives make up some of the oldest institutions in Canada (Lafleur and Merrien 2012). This is also true in Atlantic Canada where credit unions are among some of the oldest cooperatives (Theriault et al. 2008). Cooperative also provide the benefit of equitable access to goods and services particularly in rural areas or to underserved groups. This stems from cooperatives generally being in a business sector related to a fundamental need and providing an adapted service offering to meet the needs of members. These organizations also cooperate among themselves to meet community needs and care for communities and finally generate revenue for members (Karaphillis et al. n.d.; Restakis 2010).

Inter-cooperation among cooperative types is a re-occurring theme in the literature as it relates to one of the fundamental cooperative principles; more practically. it is one of the ways that cooperatives are able to effectively compete in the marketplace (Kelly 2012; Restakis 2010). It is important to note cooperation does not mean collusion between cooperative firms, but rather membership in associations, federations and in ownership of other cooperative organizations. Examples of this include Co-operatives Canada, a cooperative association and lobby group in Canada, the International Cooperative Alliance, which is the international cooperative association, and The Cooperators Group, which is large financial services company in Canada owned by the cooperative sector (The Cooperators Group n.d.). There are many other formal and informal cooperative groups which work together to address the needs of cooperative members. It is important to note that cooperatives are not exempt from laws that ensure fair competition and cooperation must not collude otherwise cooperatives would be more akin to cartels particularly in areas where they hold a large market share such as Soli in Quebec or Mondragon in Spain (Restakis 2010).

The cooperative sector's economic impact is another major theme in literature from a Canadian and international perspective. Although the cooperative sector, because of its rural tilt and narrow service groups tends to be overlooked in broader economic analysis, this may also potentially be because of its presence across almost all industry sectors. Cooperatives operating in Canada have assets totaling $503.2bn. Internationally there are more than 75,000 cooperatives in operation (Duguid and Karaphillis n.d.; Lafleur and Merrien 2012). Beyond these, the cooperative sector has been shown to have a significant impact in work done with Cooperatives Canada. It was shown that the sector, including financial and non-financial cooperatives, contribute $62bn to the overall Canadian economy annually. Similar work was done for Manitoba, Nova Scotia and Ontario where the cooperative sector was shown to have a similarly strong effect on the economies. This work was done using a value-added analysis based on the direct and indirect economic spin-off from their operating activities in particular their revenue, employment expense and tax expenses and those of related entities in their supply chains. The model also includes induced impacts defined as spending by employees and other individuals related to the cooperative. (Duguid and Karaphillis n.d.; Karaphillis et al. n.d., n.d.). The impacts were estimated using the standard multipliers that are provided by Statistics Canada.

Internationally, in an annual report on the 300 largest cooperatives in the world, insurers which I have noted as under represented the literature reviews, make up 39% of the top 300 cooperatives, and insure 900 million people worldwide (Roelants and Gianluca 2019). From this it can be inferred that mutuals and cooperative insurers can grow to be major economic players.

Mutual Insurance Research

Despite the success of mutuals internationally, the academic literature available on this form is relatively limited. Historical documents are rare, except for those produced as commemoration booklets as part of community projects. Although there are older documents reviewing mutual insurance in Europe and the United States particularly around the turn of the twentieth century, academic subjects focus principally on efficiency and various forms of agency conflict rather than member motivations, competitive strategies, or their cooperative DNA (Talonen 2016). However, there has been an increase in academic literature concerning the operation of mutual insurers particularly in the years since 2010. This may be attributable to the growth of gross written premium that has been experienced by mutual insurers since the financial crisis in 2008. This phenomenon was coined ‘the flight to quality’ as the increase in interest appeared to stem from customers seeking more stability and less profiteering from their financial services organizations. (ICMIF 2018; Swiss Re Institute 2016; Talonen 2016).

Mutual insurance does not have a unified definition according to the most recent systemic literature review on the subject, however it is generally any insurer where the policyholders are owners as defined by their claim on the residual assets of the firm (MacMinn and Ren 2011). This differs from cooperative insurers where the firm is usually owned by a cooperative or group of cooperative firms. The Cooperators noted in the previous section is an example of this type of firm where it is owned by credit unions and cooperatives in Canada (Pigeon 2020). A unified definition for a mutual insurer is a company that is defined to be their customer owner's reciprocal risk sharing vehicle structured for their benefit as consumers (Talonen 2018).

Themes explored in the existing literature generally include those related to technical efficiency and motivation for change in form. In one of the few literature reviews available on the subject of academic literature on mutual insurers, including both property and casualty and life insurance, the themes covered include: why do mutual and stock organizations coexist, which form is more efficient (generally from a data envelopment perspective), and why one form converts to another (MacMinn and Ren 2011). Among the discussion of efficiency there are three themes generally covered outside of financial performance efficiency and they relate to agency issues concerning conflict of interest, moral hazard and adverse selection (Dionne and Harrington 2017; MacMinn and Ren 2011; Talonen 2016). In this case agency issues refer to the idea that different organizational forms create different incentives for organizational stakeholders. Examples of this include that the residual value of a firm lies with the policyholders, meaning that there is no conflict between owners and policyholders in mutual insurers as they are the same party. On the other hand, mutual insurers can be considered as less efficient at managing conflicts of interest arising from owner-manager conflicts as they typically have fewer market mechanisms/incentives to hold managers accountable (Cummins et al. 1999). The owner manager conflict can impact an insurer’s growth strategies through their management relationship with owner/policyholders. Mutuals insurers tend to pursue less risky growth strategies compared to their counterparts owned by shareholders. This is attributed to management’s lack of independence from their board of directors, compared to the relative autonomy of the management at publicly traded firms based on work that was conducted in the United States (Fier, Liebenberg, and Liebenberg 2017).

This vein of research links closely with assumptions about mutual insurers ability to spread risk and adverse selection. Adverse selection occurs when there is an asymmetry of information between the insurer and the insured. An example of this is when an insured uses private information about their risk profile unavailable to the insurer, like when there are undisclosed hazards present on a property. Literature suggests that due to the small membership base of mutual insurers and their inability to spread un-systemic risk across the entire market they are less likely to attract insureds who would represent a poor risk profile (Ligon and Thistle 2005). This can be seen in the distribution of mutual insurer as having many small companies, which may be preferred by risk adverse individuals. It also noted that participation through premium note systems may discourage adverse selection (Ligon and Thistle 2005). The concept of moral hazard and adverse selection are closely linked however, moral hazard occurs when the asymmetry of information is exploited by an individual purchasing insurance (Nickolas n.d.). Moral hazard may be less prevalent in mutual insurance as the risk is shared among what is typically a small affinity group, and there may be societal consequences even without financial consequences for insureds gaming the system. (Dionne and Harrington 2017; Smith and Stutzer 1995).

The last overarching concept that is frequently described in the literature is demutualization (MacMinn and Ren 2011; Talonen 2016). Demutualization is the process in which a mutual insurer converts to a shareholder owned firm. The process may take place as a mutualization which is the reverse, but this is rarer. Demutualization has principally taken place regularly in the life insurance industry, but is currently taking place in the Canadian property and casualty insurance industry for the first time (Pigeon 2019). The process is complicated, particularly in light of the cooperative principles, which despite being abandoned still point to the need to address the generally indivisible reserves, and determine who is actually participating economically in the mutual. (Pigeon 2019). However, the moral and societal implications of this are not necessarily within the scope of this research, but it is sufficient to note that this strategy is often employed to capitalize a firm and support growth. The process to demutualize essentially accesses capital that is not generally available to mutual insurers, and researchers have not necessarily noted negative consequences to operating efficiency as a result of demutualization (Viswanathan and Cummins 2003).

The history of mutual insurers, particularly in Canada, is more difficult to find academic literature on. This may be a result of the relatively small footprint of the insurance industry in Canada compared with those in other countries or due to the regional nature of the industry. One notable comparison is the American P&C insurance industry has a total revenue of $1.4Tn compared to ~$60bn in Canada. This, combined with Canada only being the seventh largest market in the world for P&C insurance, may explain the scarcity of literature (MSA 2020; OECD 2020). Despite this, many small mutuals have created informal community historical retrospectives based around their local farm mutuals, particularly in rural Ontario. The history in these institutions is rich as the majority of mutuals are more than 100-years old in Ontario and Quebec (CAMIC n.d.). The history retrieved from these efforts has largely been accumulated in mutual insurance industry associations.

Mutuals were generally created in association with the agricultural sector to address the issues surrounding the availability of insurance for farmers and rural Canadians. Legislation was passed in 1836 to allow the formation of one farm mutual in each of the 20 districts of upper Canada, which is now Ontario (CAMIC n.d.). The act was amended in 1850 to allow for the formation of more than one mutual per district of which roughly 40 still remain in Ontario, although this number would be larger considering amalgamations which have take place. Lower Canada (Quebec) passed similar legislation in 1852, and hundreds of mutuals were created of which 19 remain (CAMIC n.d.; MSA 2020). Early mutuals did not enjoy the stability of mutual insurers today. In Quebec (lower Canada), of 52 mutual insurers that were started between 1881 and 1900 only 12 remained as of 1912 (Beauchamp 2001). This prompted Alphonse Desjardins to write that these mutual societies, though a good idea, were too often set up by those with good social goals and without understanding the risk that these types of cooperatives presented (Beauchamp 2001). The problem was that these firms were set up on a premium note system. These premium note systems were initially very common as reserve levels were initially low, and required the mutual members to pay their premium at then end of the year once the indemnity cost for the year was known. The premium note system was retired as policyholder surpluses grew and companies began to maintain enough capital to pay foreseeable losses. By 1975 to avoid these types of insolvencies a ‘guarantee fund’ was set up to backstop mutuals who were unable to meet their indemnity requirements, and is still maintained in Ontario in coordination with mutual association (OMIA n.d.). Mutual insurers in the Maritime provinces were set up later to address market failure as property insurance was not widely available. Maritime mutuals currently in operation by province are PEI founded in1885 and NS founded in 1904, and 1937 respectively (CAMIC n.d.).

Canadian property and casualty mutuals generally participate in a broad range of insurance products including property and liability insurance for farms, residential properties, small and medium sized commercial enterprises, personal and commercial automobile and non-corporate fishing vessels (CAMIC n.d.). The Quebec and Ontario mutual insurers also created their own reinsurers to generate more income and to keep their capital close (OMIA n.d.).

The American experience of property and casualty mutual insurers was very similar to the Canadian history. American mutual insurers became prominent in the 1820s and peaked to 3,500 'class mutuals' by the early 20th century. These mutuals were locally owned and controlled with few cash assets, and specialized in insurance against property damage, in particular, fire. Mutuals were numerous in Pennsylvania, the Midwest and Upstate New York, and controlled 11-12% of the fire insurance market and 40% of the farm insurance market during this period. These mutuals were created to protect consumers from rate hikes and discrimination. They were typically involved in anti-corporate politics. American mutuals were also known to have made investments in collective goods like fire prevention systems (Schneiberg et al. 2008). Similar to the Canadian example the Farm Bureau Insurance companies generated new entities to serve their needs. In their case, a life insurance firm and reinsurance firm both in operation today (Juliano n.d.; Lincoln 1937).

Cooperation among mutuals is often mentioned and is relatively centralized between the Ontario Mutual Insurance Association (OMIA) and the Canadian Association of Mutual Insurance Companies (CAMIC). CAMIC serves as the national industry association and is generally concerned with matters that impact mutual and cooperative insurers across Canada. CAMIC also lobbies members of parliament and senators once annually to maintain a mutual insurance agenda. These associations are valuable as they also provide group services such as technology purchasing, regulatory compliance assistance and information sharing. OMIA can be considered the back office of the Ontario mutual community as its committees address insurance operational issues such as group filing of automobile insurance rates with the provincial regulator to general operations concerns, such as administering a benefits and pension package (Inglis et al. 2019). Internationally, mutuals cooperate through the American National Association of Mutual Insurers (NAMIC) and the International Cooperative and Mutual Insurance Federation (ICMIF). These organizations are also research and mutual information sharing societies.

Psychological ownership is a newer theme in mutual insurance literature explored by Antti Talonnen in 2018 as part of his doctoral thesis. This concept is overarching in the sense that it relates to adverse section and the concept of moral hazard. Essentially, the concept refers to the way policyholders in mutuals engage with the firm in the context of a feeling of legal ownership and from the perspective of their feeling of true individual ownership (Talonen 2018). This concept is explored through interview questions surrounding the role of policyholders in the primary research section of his paper. The basic assumption of whether or not ownership among policyholders influences behaviour is an important one in the literature, and one where the theory may not align with practice, particularly as firms grow and serve individuals outside their original affinity group. Other authors have noted that it is harder for policyholders to have a sense of ownership as mutual enterprises grow (Guinnane, Jopp, and Streb 2012).

Finally, in the review of mutuals, most emphasize the economic benefits of doing business with them compared to shareholder firms. These benefits can be generally summarized as being locally owned by policyholders with directors who are elected by policyholders, that profits generated are held for the benefit of the firm's stability or distributed through lower premium or cheques. Mutuals are very stable from a financial performance perspective and very well capitalized (Inglis et al. 2019). In the following sections these benefits, the competitive strategies and cooperative advantaged will be explored through a market share analysis and through primary interviews.

Industry Overview

As with previous studies of insurers and mutual insurers it is important to provide some context as to the size of the market and where mutual insurers compete in the Canadian marketplace. Insurance market overviews can take many forms and due to the large amounts of data available can take on many permutations. For the purposes of this study and to interpret the results of the interview investigation it is important to focus on the type of information available, the distribution methods used, the products sold by this class of insurer and their success level of attracting new policyholders. It is important to note that the industry is mature and stable, with only small changes from year to year therefore this overview will focus on 2017, as it is the most recent full year where complete data is available.

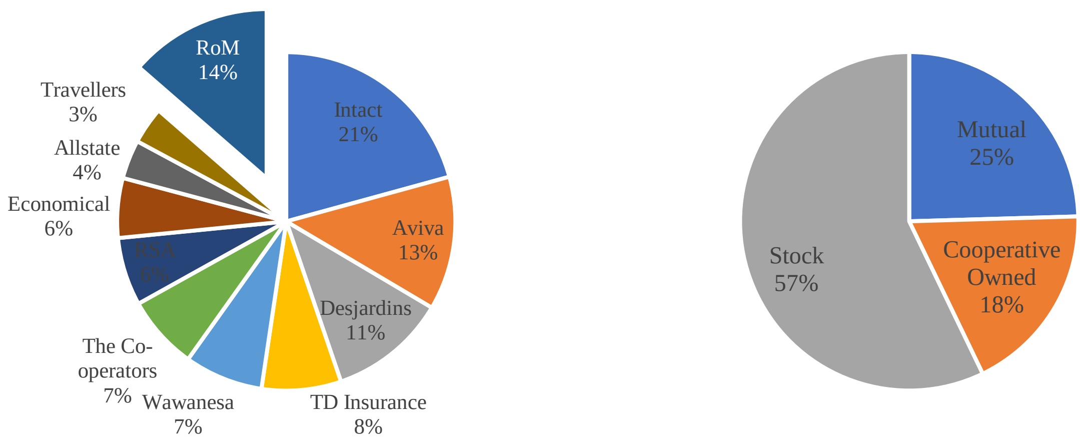
As noted in the literature review efficiency studies are the predominant type of literature discussing efficiency in insurance, and this may be because insurers in most jurisdictions are required to submit very detailed financial performance information to government entities. Canada is no exception and the following information is from a private database provided by MSA Research Inc., financial results disclosed to the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Services Regulatory Authority (FSRA) in Ontario. The basis for the data is the property and casualty financial disclosure forms known as PC-1 forms and insurers' public financial disclosures.

For the purpose of this study the insurance market in Canada is being considered in the context of Canadian farm mutual insurers being investigated and where they can compete based on their capital, and existing expertise. These mutuals are traditionally agricultural insurance providers who provide insurance for farms, personal property, and small commercial exposures. Therefore, to measure their market opportunity fairly, the total market for Canadian insurance has been taken, and specialty insurance lines have been removed, along with government insurers with whom private companies cannot compete and finally those insurers writing high value for commercial lines insurance that require more capital and expertise. As a result of these adjustments the total Canadian insurance market where mutuals can compete is considered to be $39.1Bn of relevant insurance premiums compared with a total insurance market size of 56.9Bn as of December 31, 2017. The same procedure has been followed for regional and provincial market share calculations.

The Canadian P&C industry is made up of Canadian domiciled companies, and foreign owned entities. Among these are cooperative owned insurers like Desjardins and The Co-operators, mutual policyholder owned firms like Wawanesa and shareholder owned firms that are publicly traded domestically or in their home markets (MacGillivray and Lindsay 2011). Additionally, some provinces have provincially run insurance schemes for auto insurance.

Despite this diversity of insurer forms there is high concentration. There are approximately 225 individual firms reporting financial results in 2017, although when common ownership is considered the insurance groups and companies are roughly half that number. The top ten insurers in Canada have 86.4% of the market across Canada as of 2017. This has been reasonably stable for the last five years, after a high amount of consolidation took place at the carrier level throughout the early 2000's (MacGillivray and Lindsay 2011; MSA 2020). Additionally insurers are concentrated largely in Ontario and Quebec with 68.1% of all insurer business locations being in Ontario and Quebec (Irigoyen 2019).

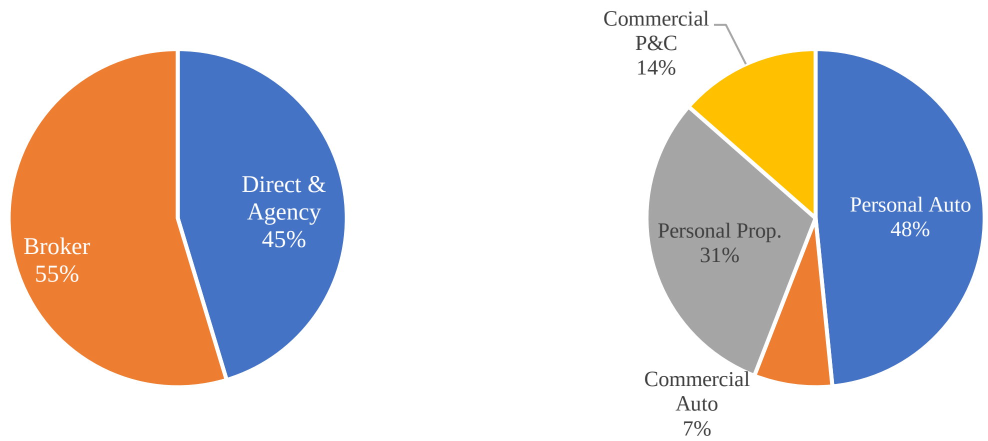
Graphs of Market Share and Insurer Ownership Type (MSA 2020)



Canadian insurers use three types of distribution to reach their customers. Brokerage distribution, a channel of independent commission-based distributors, is still the largest as they have the majority of commercial lines business. This may be a as a result of the more complex nature of commercial automobile, property and liability insurance where brokers provide independent expert advice. Agency distribution is when a company engages independent agents who sell on their behalf or use staff agents in the employ of the company. Staff agents are sometimes called direct distribution as they cut out independent members of the channel and have become increasingly common as information communication technology has improved. Also noteworthy is that direct distribution, which is more prevalent in personal automobile and property, is less expensive as commissions are not generally paid. (MacGillivray and Lindsay 2011).

From a product perspective, there are 14 lines of business that are reported separately. These lines include a number of specialty business however the majority of insurance product volume is sold through personal insurance products like automobile and property coverages. Additionally, commercial coverage focused on small and medium sized enterprises make up the next largest tranche. These products make up approximately 70% of the overall market and are the focus of mutuals in this study (MSA 2020; OSFI 2013).

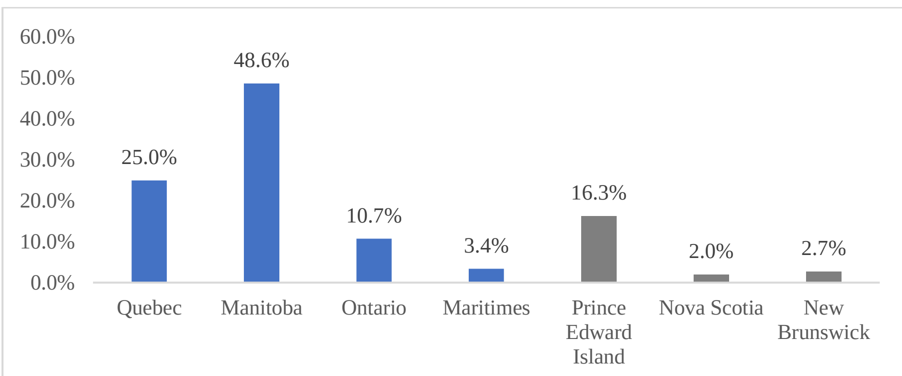
Distribution and Product Breakdowns in the Market Place



The basis of distribution, geographies where firms operate, product mix, customer preference, regulation and capital are the strategic factors that contribute to decisions made by leaders in the insurance industry. As examples some geographies are more prone to catastrophic weather like hurricanes, other jurisdictions have older housing or building stock. These factors are considered by leaders within all types of insurers. Additionally, distribution expense and relative profitability of product lines is an important concept. As will be explained by participants in the interview process, auto insurance is expensive to distribute due to regulatory filing requirements and tends to produce more volatile results (MacGillivray and Lindsay 2011),property insurance is less highly regulated and can be more profitable. Trends in distribution also drive competitive decision making as there has been consolidation of brokerages through the independent channel and by vertical integration of other insurance carriers and banks (Rosen 2001).

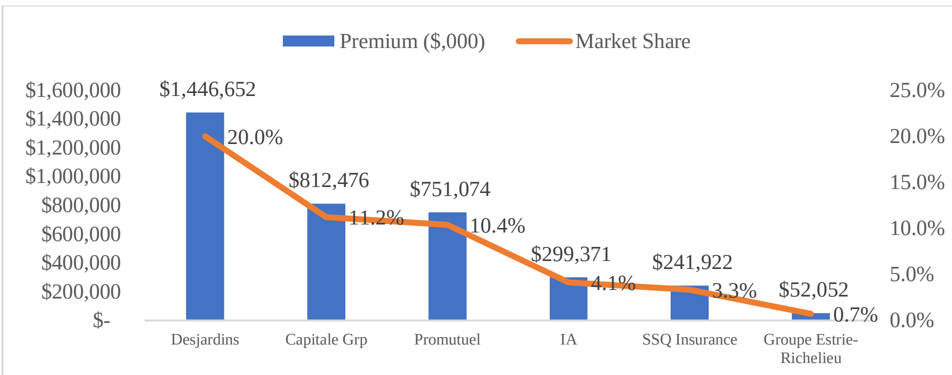
From the perspective of mutual insurers geographic market share results are of interest. Mutual insurers have enjoyed more market penetration success in Quebec, Manitoba, and Ontario compared with Maritime provinces.

Mutual Market Share by Province and Region (MSA 2020)



The Quebec market is arguably the most successful at keeping its premium domiciled from a volume perspective despite being highly concentrated. The top eight insurers control 90% of the P&C insurance market. The success in this is that the relevant market is approximately $7.2Bn and Quebec based cooperative owned and mutual insurers have a market share of 45.7% spread across five carriers. This increases to 49.8% when Industrial Alliance is included, an insurer which was demutualized in 2000, after having been founded as a mutual aid society in 1888 in Quebec (iA Financial n.d.; MSA 2020). The mutuals in isolation have a market share of 25.7% and the group is made up of Promutuel, Groupe Estrie Richilieu, SSQ and Capitale Group.

Quebec Market of $7.2Bn (MSA 2020)



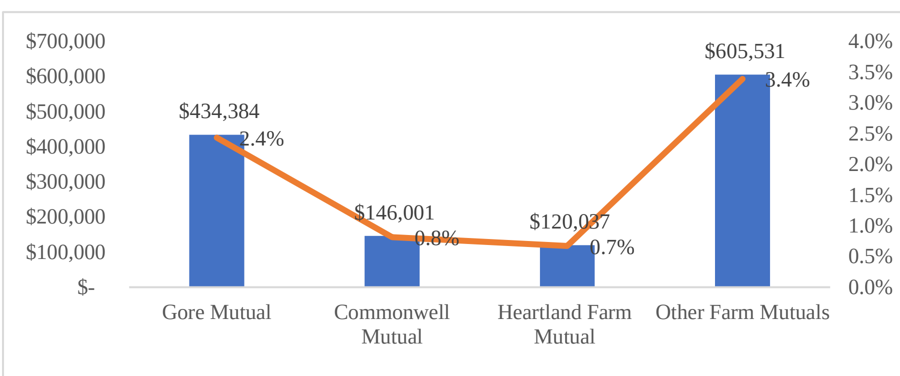
Promutuel is an interesting group from a strategy perspective as they are a federation of the 16 provincial traditional farm mutuals who share their back-office functions and report their results as one group. Additionally, like in Ontario mutuals, Promutuel Groupe have an owned reinsurer, which provides products to the federation members. This group is arguably the most successful in Canada at attracting policyholders, and maintaining market share in their region. Promutuel is the third largest insurer in their region and predominately writes personal insurance (74% of volume) for its 600,000 members (Promutuel 2020). From a distribution perspective, Promutuel primarily uses a direct agent approach and does have some volume through the brokerage channel. From a regional perspective, they have some policies in the francophone areas of eastern Ontario and northern New Brunswick as well (MSA 2020; Promutuel 2020).

SSQ and Capitale Group, whose results are shown separately above, announced their merger in 2020, which makes them Canada's largest mutual insurer when SSQ's life insurance operation is accounted for (Meckbach 2020). Like Promutuel, these insurers write personal lines exposures and primarily use a direct agent method of distribution. Capital Groupe does have some volume through the broker network through a subsidiary. Notably Capitale Group is a mutual owned by members of Quebec's civil service (Meckbach 2020).

Meanwhile, Groupe Estrie Richilieu is a mutual insurer who remains principally focused on distribution to the agricultural sector (Groupe Estrie Richilieu n.d.).

One element of the Quebec marketplace which may be important to note is that they have a semi-governmental auto insurance scheme, where some auto insurance indemnity is provided by the government through an entity known as the Automobile Accident Society of Quebec (SAAQ n.d.).

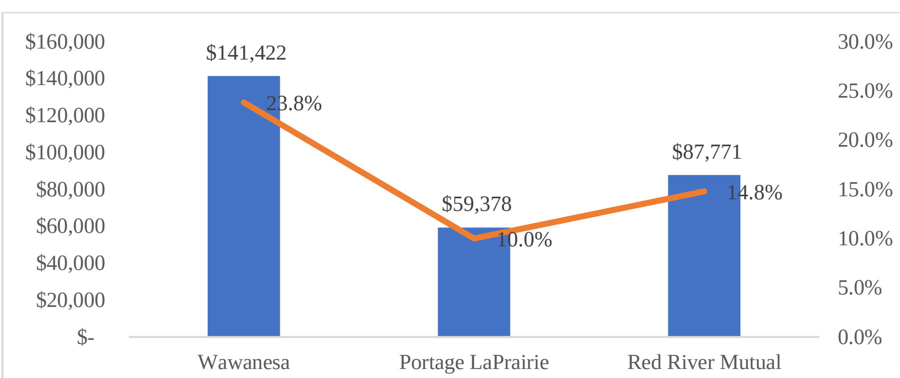
Ontario Market $17.9Bn (MSA 2020)



The Ontario insurance is unsurprisingly the largest market in Canada and has a relevant market size of $17.9Bn and domiciled mutual insurers have a market share of 7.3%. Roughly half of mutual insurer volume rests with the three largest mutual insurers, Gore Mutual, Commonwell Mutual and Heartland Mutual Insurance. However, the balance is spread between 37 farm mutual insurance companies with an average premium volume of $16.4m. One piece which may be of interest is that Gore Mutual is the longest tenured mutual in Canada having been founded in 1836 (Spencer 2003). Unlike the Quebec marketplace Ontario mutuals insurers work as an association and do not amalgamate their results, rather they compete against one another. OMIA provides some back-office functions but not to the same extent as the Promutuel Group. Mutual insurers in Ontario rely predominately on the brokerage channel for distribution of their products, but in some cases still have agents in place as this was their legacy channel.

From a product perspective, most Ontario mutuals are largely generalists writing across the products discussed, however there is at least one insurer still specializing in farm insurance and not straying far from that niche. As a result of the crowded marketplace of mutuals which are located in southern Ontario, there has been significant consolidation of mutual insurers in Ontario.

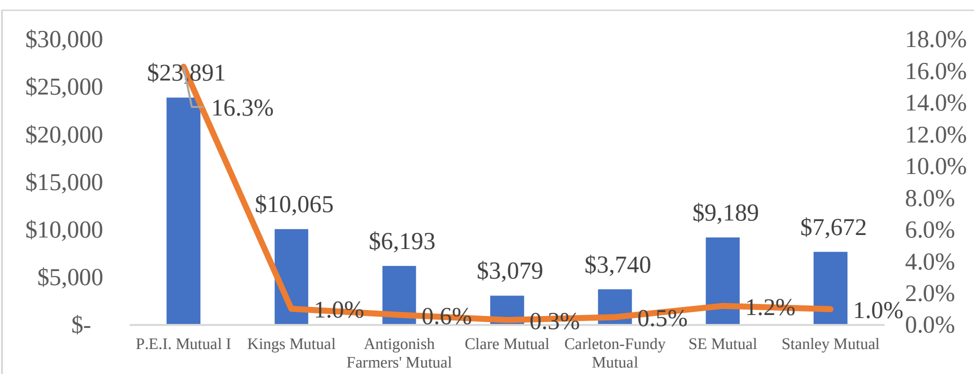
Manitoba Market $593M (MSA Research Inc., 2020)



Mutual insurers domiciled in Manitoba have a market share of 48.6% spread across three insurance companies. Red River Mutual Insurance, Portage LaPrairie and Wawanesa Mutual are all Manitoba based insurers who use a brokerage-based distribution method. Unlike Ontario and Quebec there is no provincial mutual insurer association or federation. This may be driven by the national focus of Portage and Wawanesa. Manitoba, like Quebec, has a public auto insurance scheme as well.

Notably, Wawanesa has been a national success and competes in P&C markets, and also owns a life insurance company. Wawanesa also has operations in the western United States. In 2015, they made one of the largest acquisitions by a mutual insurer and acquired Western Financial Group, in a move to vertically integrate a large western Canadian distributor (Canadian Underwriter 2017).

Maritime Market $1.9Bn w/ Provincial Market Share (MSA Research Inc., 2020)



The Maritime mutual insurance community, who are the motivation for this research, have an overall market share of 3.4% for the provinces of Nova Scotia, New Brunswick and Prince Edward Island whose relevant market size is $1.9Bn. The market share for PEI Mutual is the strongest of the group at 16.3% of the Prince Edward Island market. Mutuals domiciled in New Brunswick and Nova Scotia trail this considerably (MSA 2020).

These insurers primarily use an agency distribution method with independent agents and those who are employed by the firm. All seven firms are generalists but predominantly insure property insurance (MSA 2020). Mutuals in New Brunswick had an owned entity known as United General Insurance which was meant to act as an automobile insurer for them. United General was recently sold to Farm Mutual Re, which is the mutual reinsurer based in Ontario.

Another competitive driver is regulation in the Canadian insurance industry, as there are multiple levels of regulation with different focuses (Irigoyen 2019). The federal regulator known as OSFI monitors solvency for federally licensed insurers. Each province also has a regulatory department responsible for insurance regulation; these are generally responsible for market conduct, distribution licensing and provincially regulated insurers (Irigoyen 2019; MacGillivray and Lindsay 2011).

Insurance regulation at both levels are generally concerned with the solvency of insurance firms, at the federal level this is measured by a metric known as the minimum capital test (MCT), which noted the capital and reinsurance that must be in-hand to protect against defaults. The minimum capital required is calculated with risk-based formula based on the product mix, and reinsurance held by a firm. The test is completed by dividing the firm’s capital by their minimum capital requirement and is expressed as a ratio. OSFI has a target of an MCT of 150% for operating firms, but in practice most companies maintain a ratio closer to 200%. It is also worth noting that provincially licensed insurers who are members of a guarantee fund are exempt from MCT requirements ((OSFI 2013)). Discussions of capital are important in this research as one area that is probed is how insurers view their excess capital and whether it is being put to good use. It also helps to put the focus of the industry into perspective.

As the industry is highly regulated, profitability though important as concept does present a major stumbling block to analysis, as firms generally can not operate for long without maintaining adequate profitability from their insurance operations or their investment of reserves. Otherwise, a regulator would step in and take control. This has not happened since 2001 in Canada (Harries 2014). For the purpose of context, it is sufficient to note that the profitability and sustainability of a firm are negatively impacted by high expense ratios and volatile or severe losses. These are a concern when firms stray from their core underwriting competencies, when retained earnings are insufficient to support growth, and when there are governance issues at the management or board level (Harries 2014).

The Canadian insurance market is highly concentrated, well capitalized, mature and stable. Distribution, product and ownership are key drivers for firm performance in reaching their markets. Mutuals who manage these well are highly successful in some provinces. These concepts and those explored in the literature review are explored with industry leaders in the next section.

Perspectives from Industry Leaders

In order to validate the information collected throughout the literature review and industry research, ten senior industry leaders have been interviewed. This process was additionally meant to garner greater insight into the competitive environment and gain deeper knowledge of the challenges and opportunities facing Canada’s regionally focused P&C mutual insurance sector. The leaders were chief executive or operating officers from Canadian mutual insurers and associations, with representation from Western Canada, Ontario and each of the Maritime provinces. The participants represented mutual insurers as large as $224m in premium volume and as small $3m, giving a good cross section of the industry. Overall, the participants' premium volume represented ~1% of the total premium volume of the Canadian P&C insurance industry. Participants included the following individuals:

Company	Participant	Position	Region
PEI Mutual Insurance	Blair Campbell	Chief Executive Officer	Maritimes
Antigonish Farmer's Mutual Insurance	Brian Morgan	Chief Executive Officer	Maritimes
Clare Mutual Insurance	Janice Belliveau	Chief Executive Officer	Maritimes
Farm Mutual Re	Jeff Consitt	Chief Operating Officer	Ontario
Ontario Mutual Insurance Association (OMIA)	John Taylor	Chief Executive Officer	Ontario
Heartland Farm Mutual	Louis Durocher	Chief Executive Officer	Ontario
Canadian Association of Mutual Insurance Companies (CAMIC)	Normand Lafreniere	Chief Executive Officer	National
SE Mutual	Shaun MacPhee	Chief Executive Officer	Maritimes
Trillium Mutual Insurance	Tracy MacDonald	Chief Executive Officer	Ontario
Portage LaPrairie Mutual Insurance	Wayne Wyborne	Chief Operating Officer	Western

These participants represent some of the most prominent voices in the mutual insurance industry through their leadership of firms, and participation on boards which lead wider industry initiatives. Each of the participants were asked a number of questions pertaining to themes identified in the literature review with a focus on how mutual insurers gain competitive advantages in the marketplace. The themes initially included; mutual insurance history, cooperation and community, financial performance, distribution and product strategy, policyholder engagement, strategic planning and leadership and finally capital strategies, geographic diversification and uses of reinsurance.

Methodology

An open-ended interview technique was used with each participant. The interviews were based on similar research done by Laurie Mook who validated her results on the rural tilt among cooperatives with a similar method (2017) which included interviews with industry leaders and academics. Anna Peredo similarly investigated how Vancity Credit Union strengthens and supports communities through its cooperative banking operations which was published in the Journal of Cooperative Studies in 2014. Although open ended interview techniques are generally considered part of exploratory research, the method can provide significant insight where there is not a large body of research already available (Maiorano et al. 2017; Peredo 2014).

Each interview lasted between 40 and 90 minutes and focused on the aforementioned themes. The questions asked are available in Appendix B, however due to the open-ended method used not all of the questions were asked in the same order and in some cases were tailored to the interviewee’s role. As an example, leaders of mutual insurers were asked to comment on their own financial results while leaders of associations were asked to comment on the financial results of the mutuals whom they represent. The flexibility of this method allowed the interviewee to expand on their own experience and perspective more fully than if the questions had been unmodified.

To add rigour to the data collection, interviews were recorded where the participant consented and were transcribed. In the two cases where recording was not an option, interview notes were taken. These transcripts and notes were then reviewed and the comments from each participant were categorized into 19 minor themes which included categories like board diversity, consolidation/amalgamation and cooperation. These 19 themes were then mapped back into the six initial themes and themes were added to include statements about the outlook of the industry and government relations. The commentary provided by the participants was then compared and contrasted to pull out commonalities. Additionally, the comments were analyzed to find areas where some companies can improve their operations or to determine where best practices are already in place.

Finally, the themes, comments and best practices identified from the conversations are being presented without attributing direct quotes to any one individual as the nature of the commentary on strategy and growth ambitions can be market sensitive. However, for the purposes of data integrity the interviews, transcripts, notes and comparison template with speakers identified are being saved for three years per the submission to UNB’s research ethics board.

Results: History

All participants reported the long tenures of their company and associations with the oldest individual firm being Portage LaPrairie and the oldest association being OMIA which was founded in 1882 in order to represent the interests of the Upper Canadian mutuals. The newest mutual participating was Heartland Mutual which was founded in 2016. However, it was an amalgamation of two mutuals whose roots date back as far as OMIA's. Sufficed to say that all of the participants were in agreement that the mutual insurance system, like many cooperatives, enjoy a long tenure.

All of the participants commented on the system’s historical founding in agriculture. The most common anecdote on the roots of each firm and association was that “a group of farmers” started the company to meet their insurance needs which were not being met due to their rural location or the hazardous nature of farming. Although all participants reported their roots in agriculture, and some noted the participation of business people from the agricultural sector on their boards, only one (Trillium) of the seven companies noted that agricultural insurance for small and medium sized farmers was still their primary business. The other nine participants noted varying degrees of agricultural affinity and the most common theme was that the farm mutuals had become largely generalist serving their region and rural interests rather than farmers.

Initially, the mutual system was based on the concept of promissory notes whereby those insured by the mutual would sign a note committing to cover a proportional amount of the company’s insurance losses throughout the year. This system was noted as outdated, as it is not presently in use, except by one insurer who still employs promissory notes that commit an insured to cover a loss up to five times their premium value. This system is only used where the provincial insurance act allows for it, and due to changing customer preference, the system is going to be transitioned out during an upcoming bylaw change. No interviewees mentioned a time after 1929 when a promissory note had been called.

Interestingly, both participants from associations noted that CAMIC came much later than OMIA. Farm Mutual Re and guarantee funds also did not appear until the mid 20th century as was explained by multiple interviewees. Although cooperation came early in the mutual sector's history, larger initiatives with national scope did not come until much later.

According to two of the participants it was the change from the promissory note system that actually drove the creation of CAMIC and the guarantee funds. Customer preferences changed and economic participation was no longer desired by many members in the form of an end of year payment. In order to switch to premium paid up front as a set amount, P&C mutual insurers had to set up a guarantee funds where companies would effectively insure each other against default by taking over their liabilities in the event of an insolvency. Several participants noted that this system is still in place in Ontario and creates an effective self-regulating solvency environment. In jurisdictions like New Brunswick, it was noted that insurers use the Property and Casualty Insurance Compensation Corporation (PACICC) rather than a guarantee fund.

The president of CAMIC went on to explain that by having the premiums paid up front, by policyholders, mutual insurers began to have profits for the first time, creating a tax liability. CAMIC was created to lobby the government for tax reform as the mutuals were still not operating to create profit, but rather to support their own solvency. They won legislation that traditionally set out that a firm should have a certain proportion of business insuring farmers and it would shield them against taxation. This benefit was not presently enjoyed by any participants based on their feedback and has since been rolled back.

Cooperation

National and regional associations are important for fostering cooperation among mutuals and all participants explained that they were members or affiliate members of the various mutual insurance associations in Canada and the United States. Cooperation among the mutuals featured prominently in the conversations throughout all of the interviews, however one piece that many interviewees were careful to mention is that cooperation is important as cooperatives but that other mutual insurers are also their competitors, albeit friendlier than some others. Cooperation does not amount to collusion, as like any other firm they do not engage in anti-competitive behaviour. However, the existence of ‘gentlemen’s agreements’ was noted by the Maritime participants that had historically determined territories. These no longer appear to apply.

Associations include the Canadian Association of Mutual Insurance Companies (CAMIC). As noted, this national industry group is responsible for federal government lobbying, and according to one interviewee, also helps purchase memberships to technology resources such as membership to the Center for the Study of Insurance Operations (CSIO). CAMIC also provides some educational opportunities to elevate the industry with their directors training program being noted by more than one interviewee. Another benefit of CAMIC noted by multiple participants is that it is a forum that encourages cooperation from larger mutual and cooperative insurers like Cooperators and Wawanesa. Despite being much larger, these players were noted as strongly supportive of the mutual channel and active participants in associations from a knowledge sharing perspective.

All respondents also noted their participation in the National Association of Mutual Insurance Companies (NAMIC). Despite this being an American institution, several respondents noted that they provided excellent information on industry issues and were inclusive of the Canadian companies. Their effectiveness is based on their much larger membership as they have ~1,000 members compared to the 76 members who make CAMIC (SSQ and Capitale Group are not members). One example NAMIC's effectiveness was the coverage direction given on business interruption coverage interpretation in light of the pandemic. All interviewees also noted some participation in the International Co-operatives and Mutual Insurance Federation (ICMIF) although some participants noted that their work was high level and not applicable to operations, others noted their focus on sustainability of insurance in developing countries was important in the industry. More than one participant expressed interest in being more engaged with ICMIF.

Regional mutual insurance associations like the Maritime Association of Mutual Insurers (MAMIC) and OMIA were also discussed by every participant. These regional associations provide troubleshooting and networking for mutuals in their area. OMIA, however, does the heaviest lifting in the industry as they use their resources to tackle major industry issues in Ontario and nationally. Two examples cited multiple times were the agreement that Ontario mutuals had reached with the regulator for the farm mutuals to provide a joint rate filing for their automobile insurance rates. These filings are expensive and time consuming to prepare and require actuarial support in most cases. By providing this service OMIA reduces the burden on smaller member companies. It is however worth noting that the largest farm mutuals in Ontario no longer use this service as they have internal expertise in actuarial filings. Another example that is universally applicable is their working committee on the IFRS17 accounting standards changes. These changes will have a major impact on the insurance industry and OMIA is addressing these by preparing new processes through consultation with EY. Participation is voluntary but the majority of participants noted this as useful. Meanwhile OMIA also provides committees on other emerging issues and engages its members in annual conferences. The guarantee fund in Ontario is also monitored by OMIA as well as member solvency.

Farm Mutual Re was mentioned by all interview participants as an example of cooperation. Each member provided some explanation and an entire paper could be written on the operations of a mutually owned reinsurance firm. However, in brief the important points from the discussions are that Farm Re provides insurance to provincially licensed mutuals in Ontario and other small mutuals across the country who are affiliate members. There are many advantages to doing business with Farm Re including an automatic renewal of reinsurance contract (which are essential to maintaining MCT in some cases) and access to actuarial pricing reviews. Farm Re also provides access to a global reinsurance market and manages relationships through claims management. Although larger mutuals do not necessarily use Farm Re, they are a major competitive advantage for smaller mutuals who would be otherwise unable to access these types of services cost effectively according to some interviewees. It was also noted by one participant that Farm Re's future growth depends largely on their ability to attract international clients, one avenue that they do this is through their relationships in NAMIC.

Cognition+ is a major technology provider which appears to be democratically controlled by the mutuals who use them, although more research on them is needed to confirm their exact ownership structure. However, one participant did note that the enterprise was cooperative.

Cooperation from a distribution perspective was lightly touched on. 'Gentlemen's agreements' for distribution were the norm historically as most farm mutuals had a relatively small distribution area. However, due to changes in marketing it is now easier for a message to travel further. As a result, distribution regions are beginning to overlap and in some cases consolidation and amalgamations make up another type of cooperation. This type of friendly competition also exists between mid sized mutuals and smaller ones where they will not necessarily compete against a small mutual in their own territory in their focus areas, such as farms. Another way that mutuals are cooperating regarding distribution is through an investment fund called Collectifide which focuses on purchasing brokerages to protect volume of mutual insurers who invest through the fund. Collectifide was mentioned by approximately half of the participants and was noted to be having some success in protecting insurers volume.

Community Engagement

Eight of ten participants shared insights on ways that P&C mutual insurers give back and/ or participate in creating positive outcomes for their communities. These fell into three broad categories including charitable giving, job creation and participation in the social economy.

Charitable giving was by far the prominent theme discussed and can be sub-divided into formal giving programs, giving motivated by the Covid-19 pandemic and participatory giving.

Formal giving programs were in place at the largest Ontario mutuals where a substantial amount of money is given to local charities through a contest style program. These programs typically have a steering committee including distributors, board members and in one case policyholders. The giving can be a set amount or a percentage of profits. In one instance the giving amount was based on the firm's investment income rather than operational income so as to create stability. These type of formalized giving programs are notable for their governance and for being part of the organizational culture. Another type of formalized program is the annual scholarship fund given by Farm Mutual Re and available to the children of employees within the Ontario farm mutual system.

One notable comment on community giving came from a mutual leader in Nova Scotia who, rather than a formalized giving program, used a principle-based approach that charitable giving is directed at initiatives that serve the entire community, for example, hospitals. Another philosophy was to give to organizations like 4H where there is a link to agricultural heritage of these firms.

Covid-19 motivated charity was also a prominent theme, probably due to the timing of the interviews. All of the organizations who commented increased their giving as a result of the pandemic. This is consistent with global trends as well where members of NAMIC had re-invested approximately $2bn in their communities by May 2020 (ICMIF 2020). Acts of charity included small gestures like buying refreshments for frontline healthcare workers, to larger initiatives like replacing funds that could not be raised by others to help patients access transportation for dialysis treatments. Ontario mutuals and Farm Mutual Re gave significant amounts to food banks and local hospitals in light of the economic situation, as reported by Ontario participants.

Giving back through participation was a theme discussed in multiple firms, where several of the larger participants had formalized volunteer programs where employees can devote some hours to local not for profits and in return a donation is given by the firm. Another interesting comment came from SE Mutual where the giving program is also focused on initiatives where the organization can also participate through volunteering. Other participation initiatives included a donation of 43lbs of tomatoes to the local foodbank from a garden that is jointly managed by employees at OMIA and Farm Re.

Some participants noted job creation as a way mutuals impact their communities. Two participants note that by having offices located in their communities rather than a large urban centre they created good employment opportunities in financial services where they might not otherwise exist. One participant noted the importance of having local offices in regions where they do business.

Finally, in discussing community impact one participant noted the importance of mutuals in the social economy. The focus of this comment was that by having institutions focused on creating small profit for the good of their users they are able to attract younger staff and to better participate in local economies.

Distribution

Conversations with participants regarding distribution focused primarily on their channel choices, the chosen distribution region and trends in consolidation and amalgamation of brokers and insurers.

All of the participants commented at least briefly on the methods of distribution used by mutual insurers. As with the rest of the industry, distribution is done through insurance brokerages, independent agents or directly to the customer by licensed staff agents. Participants focused on growth in the Maritimes and Ontario noted the efficacy of the brokerage channel as it has expertise in more complex commercial lines insurance products, i.e. medium sized farms. Two participants leading mutual insurers did note a preference for locally owned/independent brokerages. Discussion of agents included a historical theme noting that agents, and previously only directors of mutuals were agents in some cases. All participating mutual insurers except Portage still had some agents. Agents have traditionally provided access to distribution in line with mutual insurer history of creating availability of insurance, they also had to create availability of distribution. Another theme noted by two Maritime mutuals was the switch from legacy independent agents to salaried staff agents in order to manage cost and productivity.

Distribution regions with the exception of Farm Re and Portage remain provincial, and in some cases is focused on particular regions within a province. Using PEI Mutual as an example, their reach stops at the shores of the island and that appeared to be in line with their strategy. Participants who shared their regions with other mutual carriers noted that there was intensified competition across provincial regions due to the ease with which marketing now travels. Three participants noted that in areas where stockholder owned mutuals have exited the market there is some opportunity for mutuals. Although one participant noted this as part of market exit from unprofitable rural region in the case of his company.

Consolidation and amalgamation were a major theme discussed by all participants at both the carrier and brokerage level. Consolidation at the brokerage level includes the narrowing of distribution through the broker channel as insurers and large brokers purchase independent brokers limiting the brokers small mutuals may access. Most participants addressed this concept by discussing the previously mentioned Collectifide. Amalgamation at the carrier level was more of a surprise, as most interviewees were supportive of the practice as a way to gain size and scale, particularly those based in Ontario. Those based in the Maritimes accepted that it might be a possibility for the future and in some cases would make sense to avoid territorial conflict in distribution and to create stronger mutuals with size and scale. One interviewee noted that despite that fact that amalgamation may make practical sense through a competitive lens, the board might still struggle with the decision on a conceptual or emotional level.

Product and Pricing

All participants provided commentary on their product mix of business. The majority of mutual insurers are now general insurers and provide a mix of automobile, residential, farm and commercial lines policies. Additionally, Antigonish Farmer's Mutual and PEI Mutual reported providing coverage for non-corporate fishing boats. Additionally, more than one participant noted that coverage improvement had taken place to include more recent extensions available in the wider industry to increase competitiveness of their products.

Mutuals’ mix of business has shifted away from farmers for the majority of companies, based on the commentary from all participants. Several participants noted that it is a priority to attract younger customers and to grow their business in other commercial endeavours, as presently the non farm business is largely personal property insurance. Some interviewees noted that this was an important trend as competing for farm business has become more difficult as there are fewer farms leading to overly competitive conditions that are driving premiums down.

Participants discussing growth in commercial insurance did note the potential risk associated with the line, as it tends to be more volatile. One participant noted that the market was hardening in property insurance specifically, and that mutuals needed to grow more in hard markets where rate adequacy was being achieved and hold on during more competitive market cycles.

Some product decisions are made based on the concept of mutuality. As an example, Portage does not necessarily write farm business in Ontario or the Maritime provinces as it would be competing with more regional mutuals and the market is served from that perspective. Another example noted on this type of cooperation was where auto insurance, which is a more volatile product, can be taken over by larger mutuals. Wawanesa has expressed interest in this with one participant, and Portage is an automobile market for smaller mutuals who have chosen to broker some of the business that comes to them. However, it was noted that as results in volatile lines deteriorate, this type of cooperation becomes more difficult.

Reinsured products and products purchased through managing general agents were reported by mutuals in Ontario offering newer lines of business, like cyber insurance, and Maritime mutuals for placing coverage on substandard risks. These market solutions were notable for supporting complete customer solutions.

Several participants in the Maritimes noted that despite their underwriting standards they are more willing to make exceptions to the rules in order to ensure the availability of insurance. All who noted this also noted that this was based on regional familiarity and did not suggest these would be truly substandard insurance risks. As an example, one insurer noted that they have more experience with risks that use solid fuel heating compared to national carriers.

Pricing sophistication and credit scoring were noted by all participants in the context that credit scoring is predictive and will be available in one of the poplar mutual policy administration system beginning in fall 2020. Pricing is done based on experience and mutuals who do not have staff actuaries reported relying on Farm Re to provide rating reviews, periodically. One participant noted that pricing sophistication generally detracted from risk pooling as it excluded more individuals. However, the majority of participants noted that it would be a benefit, but may be used discerningly.

Policyholder Engagement

Policyholder engagement was relatively uniform across all seven mutual insurers and the commentary was largely echoed by the association participants. The two exceptions of this included Farm Mutual Re where their mutual insurer members participate in board positions, although this would be more akin to a cooperative of cooperatives, and an Ontario agricultural insurer who note engagement through agricultural associations. Overall, however engagement with policyholders was considered to be too low by all participants.

Engagement of principal participants in the decision making of the company generally included the board of directors, the management group and in all cases agents or broker councils were noted as participating. No participant noted that policyholders were consulted on the creation of strategic plans for the organization. One exception to this was noted by PEI Mutual where membership can easily contact management staff to voice their concerns, however this is more of a local peculiarity rather than a trend. Multiple participants noted that policyholder voices were heard through participation of agents.

Policyholders were primarily engaged through the annual general meeting (AGM) which is required in the bi-laws of each mutual as per the commentary from participants. These AGM meetings were noted as sparsely attended, in some cases only by directors, former staff and members who were recruited by management to attend so that quorum requirements could be reached. One theme mentioned by three participants was that AGMs were expensive and, in some cases, used to 'buy' participation by providing dinner. Most participants noted that they would prefer more policyholder engagement, and in one case an interviewee noted that improved technology platforms may help improve this in the future.

One interesting method of policyholder engagement noted by multiple participants was in-house loss control and risk education programs. Participants from Ontario noted that they engage directly with clients to help minimize risks particularly for farm exposures. One participant also noted their participation in events where they could provide education on agricultural risk management. The same participant also noted a relationship with an agricultural University with whom they had an internship program. These comments may support the cooperative principle of education.

Capital Strategies and Financial Performance

All participants provided commentary on the uses of capital. Questions centered around policyholder surpluses, generating investment income, reinsurance and spread of risk. No major themes were discovered on use of subscription or use geographical risk spreading between companies. Reinsurance did not provide significant insights outside of what has previously been disclosed on Farm Re. Participants generally commented on capital and their philosophy for using capital in a mutual and generating investment income.

From the perspective of a majority of participants, policyholder surplus is seen as ballast to protect against unexpected financial losses. This was particularly true for respondents discussing the role of a policyholder surplus in smaller mutuals. Three participants discussed capital in the context of size, as small mutuals tend to hold two to three times the regulatory requirement to protect against unforeseen insurance losses, called shock losses in the industry vernacular. The ratio of capital decreases as mutuals grow. Participants generally accepted this reality as necessity in order to maintain the stability of mutual insurers. However, one respondent noted that mutuals holding excess capital are more like income trusts than insurers, suggesting that mutuals are resilient but not necessarily competitive.

For almost all participants, excluding two, capital was primarily for stability rather than to promote growth. Although all participants noted that profitable growth was a priority. In some cases, on a ratio basis.

Generating investment income was reported by seven participants leading mutuals to be in line with broader industry practices. Participants reported having standard investment portfolios normal to the industry, and without any particular regional focus to their own benefit. One potential exception was Prince Edward Island where there was a security linked to the local credit union. One participant also mentioned that ethical investing strategy had been considered but had not yet been pursued. Three participants did note that their position on equities were aggressive in order to maximize income.

Commercial lending also made up some portfolios in particular two respondents noted that they include this in their portfolio. However, one participant noted that loans, particularly those to agents, can represent a conflict of interest. Loans to brokers were considered safer, although represented a small portion of the portfolio for the two respondents who reported them.

Other Themes

Important themes that were not discussed as exhaustively by participants but still provide important insights included leadership, regulation, information technology and predictions of the industry's future. These categories came later in the interview and may not have been given ample time for investigation or otherwise did not provide as much information on competitive strategies unique to mutual insurers.

Leadership commentary provided by leaders was consistent with business best practices and included that all firms represented had a strategic planning cycle in place with stakeholders, and had succession planning in place for their organization. One participant also noted that gender parity was priority that had been achieved on their executive team. From the perspective of the board of directors most participants felt that their board had adequate access to talent and generally reported little trouble recruiting members with a satisfactory level of skill.

Board of director tenure had a less homogenous results as commentary from larger mutuals generally included that board members had term limits, mandatory retirement ages and were sought out with selection committees. Smaller mutual participants reported that boards did not necessarily have as much governance around tenure. Participants unanimously reported good experience with boards and two noted specifically that their board had become more active in strategy conversations. Finally, it should be noted that all of the participants who provided commentary on board leadership noted that gender balance was improving.

Regulation and taxation were discussed very briefly by three participants outside the context of other discussion, however only to report that the environment was improving and OSFI are good partners.

Information communication technology discussions centered on policy administration systems and social media use. Policy administration systems used by smaller mutuals with a premium volume under $70m were reported as Cognition+, SEH (mutual insurer focused solutions) or independent solutions which were custom built. Meanwhile respondents discussing larger mutuals noted that they were switching to Guidewire, which is the dominant policy administration system in the Canadian P&C insurance industry. Participants who noted Guidewire preferred it for its scalability. One participant noted that Guidewire was an expensive system, but making the switch was important as Guidewire may offer better broker connectivity in the future. Two participants who mentioned Cognition+ specifically noted that it was a good solution for mutual insurers and met their needs. One participant noted that information technology was going to be important in maintaining mutual identity, specifically as technology changes.

Social media was not reported as being used effectively by most mutual insurers. Only one participant reported not using social media at all, however the other participants noted that social media could be leveraged more. Participants discussing managing social media generally cited cost as a factor in not engaging, as it requires resources. One participant addressed this by engaging an intern from a University.

Eight of ten participants were asked to discuss the future of mutual insurance from their perspective. All eight noted that consolidation in the industry would continue as a necessity. One participant noted this for Ontario in particular where competition for a shrinking farm market would be a key driver. Two participants noted that changing technology will need to address costs as the expense ratio for the industry is high. Finally, in the future, two participants noted that mutuals should be able to benefit from improved mutual message, increased localism and the growing social economy.

Analysis

As mutuals have shifted their customer base it might be fair to say that their value proposition has not necessarily kept up with the shift. User groups have shifted from the agricultural sector to a general rural population. This shift is important as it breaks the traditional affinity between membership that existed when the mutuals had more homogenous client base. This is one of the primary risks to the mutuals future as other literature has suggested multi-stakeholder cooperatives are more expensive and difficult to manage due to potential conflict between members priorities (Novkovic 2019).

Cooperation among mutuals that is done through associations fosters communication, education and advocacy that could not be undertaken without shared resources. OMIA and Farm Mutual Re are particularly important to enabling the success of smaller mutual insurers in Canada as they help overcome hurdles in pricing business, complying with changing regulation and accessing even more sophisticated financial services such employee pensions, benefits and reinsurance. Additionally, these institutions are democratically controlled by their boards who are primarily made up of their users. Primarily cooperation in the industry fosters access to collective problem solving and expertise.

Cooperation may also be an important differentiator as it offers access to high level international expertise through NAMIC and ICMIF. ICMIF in particular may be able to provide competitive advantage as they have a very social focus and have effectively integrated the United Nations Sustainable Development Goals into their program, and these goals may be very relatable for customers who prefer cooperatives (ICMIF n.d.).

Cooperation from a distribution perspective is also important as helps the mutual community create areas where they can be competitive against much larger market players in their region. Distribution themes were surprising and potentially some of the most enlightening. Notably, those participants who were focused on growth in the future were bullish on expansion in the brokerage channel to gain market access, and product expertise. Meanwhile, those who were concerned about reducing expenses focused on switching from independent agents to salaried agents in call centre type distribution similar to larger successful mutuals like Promutuel whose distribution was noted to be about 75% direct.

Consolidation and amalgamation were surprisingly popular among the participants leading mutuals. Although this sample is not conclusive there was a real sense that smaller mutuals competing in smaller more rural geographies were open to the possibility of creating larger mutuals whose size and scale could give them more distribution benefits.

Product and pricing decisions offered insight into the way leaders in the mutual insurance view providing coverage. Primarily respondents were interested in growing through new products like commercial insurance, despite its acknowledged volatility. However, the theme that emerged around pricing and the use of credit scoring seems to be a potential stumbling block for the industry as it would be at odds with some leaders' belief that underwriting exceptions, based on regional expertise, to underwriting standards are part of their companies' mandate. Additionally, actuarial resources for smaller mutuals that are available through Farm Mutual Re are essential to the success of expanded distribution.

From a product standpoint, one of the major competitive advantages may be the ability to access reinsurance for complex products like cyber insurance and managing general agents for substandard risks. Coupled with the mutual's ability to broker some products to other carriers, there is an opportunity to offer a complete insurance solution in their respective regions.

Policyholder engagement for Trillium Mutual whose priority has remained agricultural sector policy holder engagement is done principally through broker council meeting where the firm speaks with a cohort of their distributors, but also through agricultural associations. Engaging with associations or organizations is more line with insurers that write affinity business. For other carriers, policyholder engagement was also noted to be done through distributors through agents or brokers, however unlike an association or affinity group, there is more potential for the creation of an agency issue where distributors may represent their own interests (Dionne and Harrington 2017). This may represent the largest opportunity for mutual insurers to differentiate themselves from their stockholder counterparts as they have mechanisms for including policyholders in decision making that can be capitalized on. It may also be an opportunity to reconsider how policyholders are engaged perhaps associations and other types or organization present more efficient options compared to the current broad-based strategy to the general community of policyholders.

Community impacts focused largely on giving programs and charitable initiatives. This was perhaps a function of the way questions were asked. These programs were an area of pride for the participants who spoke of them and were in some cases well governed enough to have a significant impact on the community and the firm's brand. Although more interestingly for the purpose of this research were the comments on creating good employment, and enabling the social economy. These relate directly back to themes identified in the literature review where cooperative firms have a relationship of use with their customers and that they do not focus on creating extractive profits, but rather on generative business that creates a business ecosystem (Kelly 2012).

Discussion of capital and policyholder surpluses yielded a good perspective on how mutual insurers consider their capital. Considering their interconnectedness through institutions like the guarantee fund and limited ability to access capital it is understandable that capital is seen primarily as a stabilizer. A question that presents from these results is whether more can be done with these stores of investment to promote truly productive investment that would benefit mutual insurers and their policyholders. Relating this back to the literature review particularly the generative nature of companies like Farm Bureau insurance there may be opportunities for mutuals to become organizations that create more organizations (Lincoln 1937). Additionally, considering investments that are in line with today's environmental sustainability and governance (ESG) funds may create a strategic differentiator. Also considering the commentary that credit unions on Prince Edward Island had a security focused on a mutual insurer, there may be opportunities for tailored investment products designed to support mutuals based on the principle of cooperation and synergies with other cooperative players like credit unions, their related investment entities or governments.

Leadership best practices appear to be followed more or less by all members of the panel. There appears to be more opportunity for diversity in management and on boards, however in light of other studies on cooperatives this is not necessarily a surprise as diversity remains a pan-industry issue.

Trends identified in the information technology section parallel those from reinsurance where larger mutual insurers do not necessarily participate in cooperative services with other mutuals. Although it may also be an issue of suitability from mutual technology solutions. More research is needed to make a determination.

Finally, in the context of all the information provided by participants, the future appears to hold more amalgamations, which are now commonplace, but also a challenge to better communicate the mutual message. Communicating the value of mutuals, based analysing the commentary of participants, appears to be more difficult in larger geographies with less homogenous user groups this is consistent with literature discussing multiple stakeholder cooperatives and challenges in size of mutuals. Although this may be addressed through technology it may present an opportunity for additional cooperation among the carriers, their reinsurers and associations. Additionally, it may make sense to include additional types of cooperatives in their future outlook.

Preliminary Conclusions

As the research presented has been primarily qualitative it is difficult to draw concrete conclusions or accept or reject the hypotheses set out at the beginning of this exploration. The information collected and analyzed can be used to support the preliminary answers to these though, and to point to areas where more research should be undertaken. Briefly in this section I will undertake to lay out the information as it relates to the research question and try to draw some very preliminary conclusions.

The first research question related to what environmental factors were present where mutuals are successful. Based on the information garnered in the literature review and the analysis of market share it appears that companies do well in areas that have a natural affinity and local presence. This determination is based on the success of Promutuel or Capitale Group in Quebec where there professional or linguistic affinities are present. This may also apply to Prince Edward Island where a small market for insurance and sense of community may help drive the success of their mutual. A number of mutuals interviewed noted that they were rural in their focus, however this does not appear to be a significant driver of a relationship, as there was no indication that this was the driving force behind the success of any firm.

The second research question, which asked if locally domiciled mutuals are positive economic contributors, can be tentatively answered affirmatively. Primary research, and literature reviewed both support that these firms are re-investing in their communities directly and indirectly through giving, employment and taxes. The interview section where participants comment on the availability of insurance also supports this premise as it relates directly accessing credit for property insurance lines of business.

Management efficiency and its impact on competitiveness can not be answered with any degree of certainty except to say that well managed firms are desirable and most likely define the economic impact. Despite this, some opportunities for firms to update their current practices were identified in the interview section where smaller firms may need to consider updating their board governance policies and addressing agency issues that may arise due to the lack of engagement with policyholder owners. Research relating to the potential conflict between owners and managers may be applicable here. Additionally, more research is required to determine whether local knowledge truly contributes to lower incidence of adverse selection and moral hazard.

Opportunities to grow the mutual market were primarily identified through interviews and include amalgamations to gain size and scale, and growth into new and existing products. These are commercial insurance and newer products like cyber insurance which can be offered on a reinsured basis. Additionally, some interviewees noted a desire to expand regionally though not outside of provincial borders. Ownership of distribution was also a theme that showed up in all three research methods and vertical integration may be an important part of future competitiveness. Another area that may promote competitiveness would be reviewing the tax scheme as it relates to mutuals.

Two ideas that came through the primary research section and the literature review in this paper include using a direct investment method of firm’s surpluses into other businesses and exploring economic participation. It is unclear what impact these could have but there are examples to support these and should be studied further.

In short, the key strategic differentiator for regionally focused mutual insurance companies lies in their ownership structure and focus on communities which are not a priority for the broader financial services industry. Unfortunately, these companies have not been able to capitalize on this advantage as their relationships with policyholders is not distinct, except in rare instances, from policyholders at shareholder owned insurance firms. By focusing on developing these relationships through meaningful touchpoints, deploying capital and acquiring scale through organic growth and amalgamation these firms can deliver significant economic benefit to the Maritime provinces. As has been shown above, the benefits are significant and the strategies to realize the size and scale required are achievable in this region by following the example of Ontario, Quebec and Manitoba companies.

Future Research

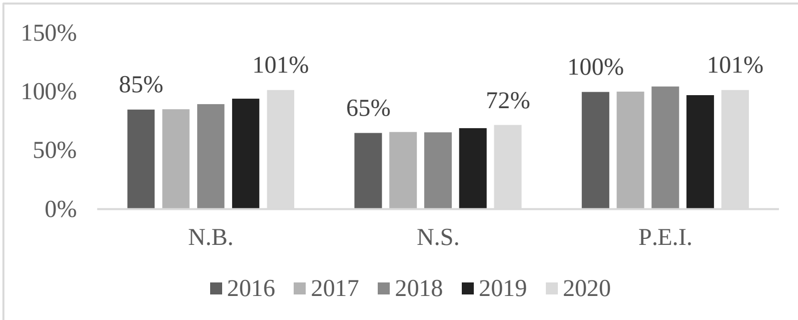
The preliminary conclusions in this paper suggest additional questions that should be addressed through future research. Ideas for future research include an updated efficiency study of regional mutuals compared to other forms of insurers, reviewing mutuals in the context of the larger cooperative environment, exploration of the impact of investment made by insurers, and a review of how product and service differentiation can occur for regionally focused mutual insurers.

Appendix A – Economic Indicators Discussion

Research that laments the financial and economic landscape in the Maritimes should have some quantitative analysis that proves that region is struggling and that the research being completed will have a potential impact on this. As the introduction spends time discussing generative business environments and cooperative financial institutions, this section lays out the specific areas where more competitive financial institutions could have an impact. These include the reliance on transfer payments and employment indicators.

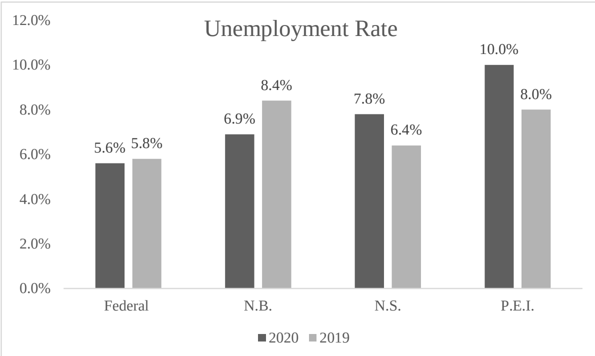
Equalization payments, which are meant to a subsidize public services in provinces that would be unable to afford them without imposing undue tax burdens make up the majority of these payments in each of the Maritime provinces (D. of F. Government of Canada n.d.; Roy 2019). The calculation of this payment is complex and beyond the scope of this research, however, it is sufficient to say that the equalization payment is made from the general revenues of the federal government in order to level the playing field among provinces whose tax rates are similar. The payment is made considering the revenue generating power of each province considering their individual, property, consumption and business taxation opportunities (Roy-Cesare 2008). Natural resource revenues are also considered in the formula. In short it is fair to say that provinces who rely on significant transfers, particularly equalization payments are objectively disadvantaged compared to the Canadian average. In the case of the Maritime provinces, transfer payments are double the national per capita amount and have been for some time (D. of F. Government of Canada n.d.).

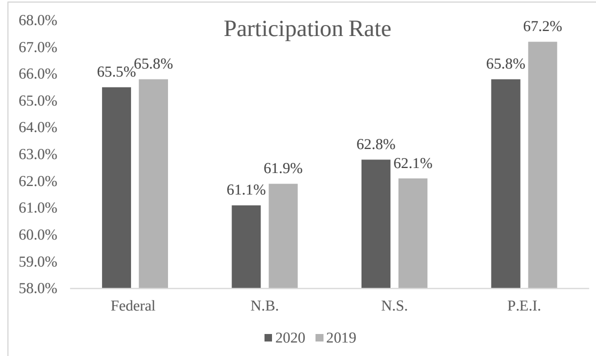
Variance from Per Capita National Transfer Payments by Province (D. of F. Government of Canada n.d.)



The graph above shows the unfavourable variance that the Maritime provinces have compared to the national per capita transfer amount, and tellingly the variance is deteriorating over the five-year period pictured suggesting that each of these provinces have lost some of their previous ability to generate the revenue that sustains public services. Additional economic indicators that demonstrate the Maritime region's economy is falling short of its potential is the employment participation rate and unemployment statistics, which show that all three provinces are near the bottom of the list compared to other provinces and the national average. Seasonally adjusted unemployment is particularly troubling as it is 1.3pp higher in New Brunswick than the national average, and 4.4pp higher on Prince Edward Island (Statistics Canada 2020). The participation rate in the Maritime provinces is also lower than the national average particularly in New Brunswick and Nova Scotia where January 2020 data shows that there is 3-4pp difference depending on the province.

Selected Employment Data (Statistics Canada 2020)





These statistics should also be considered in tandem the median after tax income in each of the Maritime provinces. The three provinces occupy three of four of the lowest amounts, where Quebec is the ninth lowest but has significantly higher tax rates than Prince Edward Island (seventh lowest), New Brunswick (Eighth lowest) and Nova Scotia as the Province with the lowest after tax median income at $50,200 annually (Financial Consumer Agency of Canada 2013; Statistics Canada 2018).

The selected statistics demonstrate that the Maritime provinces are underperforming economically, and further that their governments lack the resources to provide provincial government services equal to those of more prosperous Canadian provinces.

Appendix B: Interview Subjects and Questions

Mutual insurance history, cooperation and community

1. Can you tell me a little about the history of your company, and which demographic you serve? (Is it still agricultural?)
2. Is your company a member of any cooperative associations or federations, and if so, do you find them beneficial?
3. Cooperation among mutuals is important, do you find that you have a good cooperative relationship with larger mutuals like Wawanesa, Cooperators etc.?
4. How does your company participate in the community?

Distribution and product strategy

5. Which channels are you using to reach the market? (Brokerage, direct, agencies)
6. Which lines of business are you planning to grow and through which channels?
7. Can you tell me how consolidation in the mutual insurance industry is affecting your company?

Membership engagement

8. How do members access information about the company and who is responsible for member relationships?
9. Do you have management committees where members participate in recommendations or decision making?
10. How does your firm distinguish the benefit of membership compared to be a policy holder at another type of insurer?

Leadership, strategy and governance

11. How many members are on your board of directors, and what is the composition between internal and external. (Will ask about demographic breakdown)
12. Do you have a succession plan in place for your senior management team?
13. Does your board and senior management team have a strategic plan and what is the time period? How does it incorporate your cooperative/mutual values?
14. Was this plan developed with input from the membership?
15. What is the forum for your AGM and what is the attendance like?
16. Are there any other regular touchpoints with members?

Capital strategies, geographic diversification and uses of reinsurance

17. Does your firm buy reinsurance from the open market or from a mutual solution like Farm Re?
18. Do you have any mechanism for geographic risk sharing with other insurers?
19. How does your firm manage its capital to support growth?
20. Does provincial public debt make up a part of your company's investment portfolio?

21. Do mortgage loans make up part of your investment portfolio?

Information communication technology (including social media)

22. What is the role of technology in the future of your business, and how do your current systems support that?
23. Are you currently using social media to attract new members?

Financial performance

24. How has the financial performance of your firm been on a three-year and five-year basis?
25. Has your firm focused more on topline or bottom-line growth during that period?
26. How has your firm's performance compared to your firm's stated goals?
27. Has your policyholder surplus increased or decreased during that period and what were the major factors contributing to that?
28. Which products lines do you participate in, and are you comfortable to discuss the results of each including frequency and severity?

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