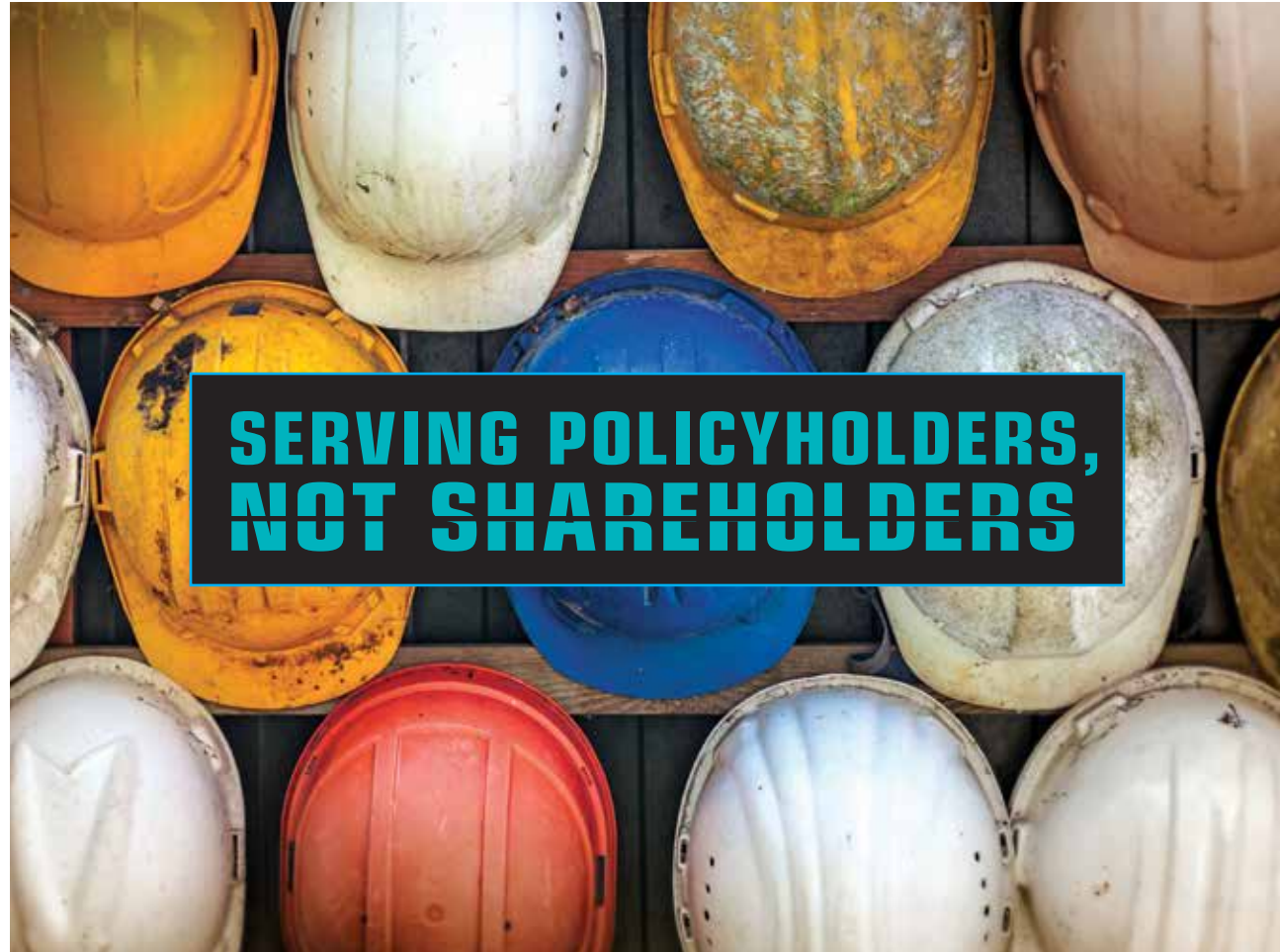


MUTUAL INSURANCE



BEN FRANKLIN KNEW SOMETHING ABOUT RISK.

He was the one, after all, who reportedly ventured into a thunderstorm to capture lightning in a jar. But he also knew a thing or two about mitigating potential damage from natural and man-made disasters. Franklin invented the lightning rod, and, in 1752 in a nod to early democracy, helped found the Philadelphia Contributionship, a mutual insurance company with only the interests of policyholders in mind.

Two hundred and sixty-four years later, Franklin's company is still in business and the mutual insurance industry is thriving, with more than 1,700 mutuals in business today. According to the National Association of Insurance Commission-

ers, seven of the 20 largest property and casualty insurance companies in the U.S.



are mutual insurance companies, serving nearly a quarter of the market.

Mutual insurance companies typically represent geographically specific businesses that share common goals for coverage—from small companies in niche markets like agriculture and lumber to large national and multinational carriers of multiple lines of coverage.

COUNTRY Financial, the Bloomington, Ill.-based mutual, came into being in the 1920s when farmers in Illinois were unable to obtain home and automobile insurance. As a mutual sponsored by the Illinois Farm Bureau, COUNTRY rapidly grew based on its mission of serving customers, who were also Illinois Farm Bureau members. While originally focused on providing personalized lines of protection, Today, COUNTRY Financial has expanded to offer farm and non-farming customers personal lines coverages, as well as commercial, business

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MUTUAL INSURANCE

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THE INSURANCE
NEEDS OF THEIR
POLICYHOLDERS.



owners, life and other specialty coverages.

MAIN STREET MINDSET

The National Association of Mutual Insurance Companies (NAMIC) reports that mutuals operate in every state in the country and cover all types of risk. Free from the competing interests of shareholders, mutuals focus solely on serving the insurance needs of their policyholders. They are the local, “Main Street” part of the insurance industry.

“Policyholder alignment is the strength of mutual insurance companies,” says Chuck Chamness, president and CEO of NAMIC, which functions as an advocacy trade association for its 1,400 member companies. “Having this complete focus on the policyholder is a kind of timeless attribute that works as well in 2016 as it did in 1752.”

Or in 1848, when Westfield Insurance began serving the needs of its policyholders. The Ohio-based mutual insurance company, free of the constraints of publically-traded companies, has the perpetual interests of its customers in mind. “Our legacy as a 168-year-old organization informs how we think about investments,” says Beth Riczko, Group Underwriting and Product Leader. “Our

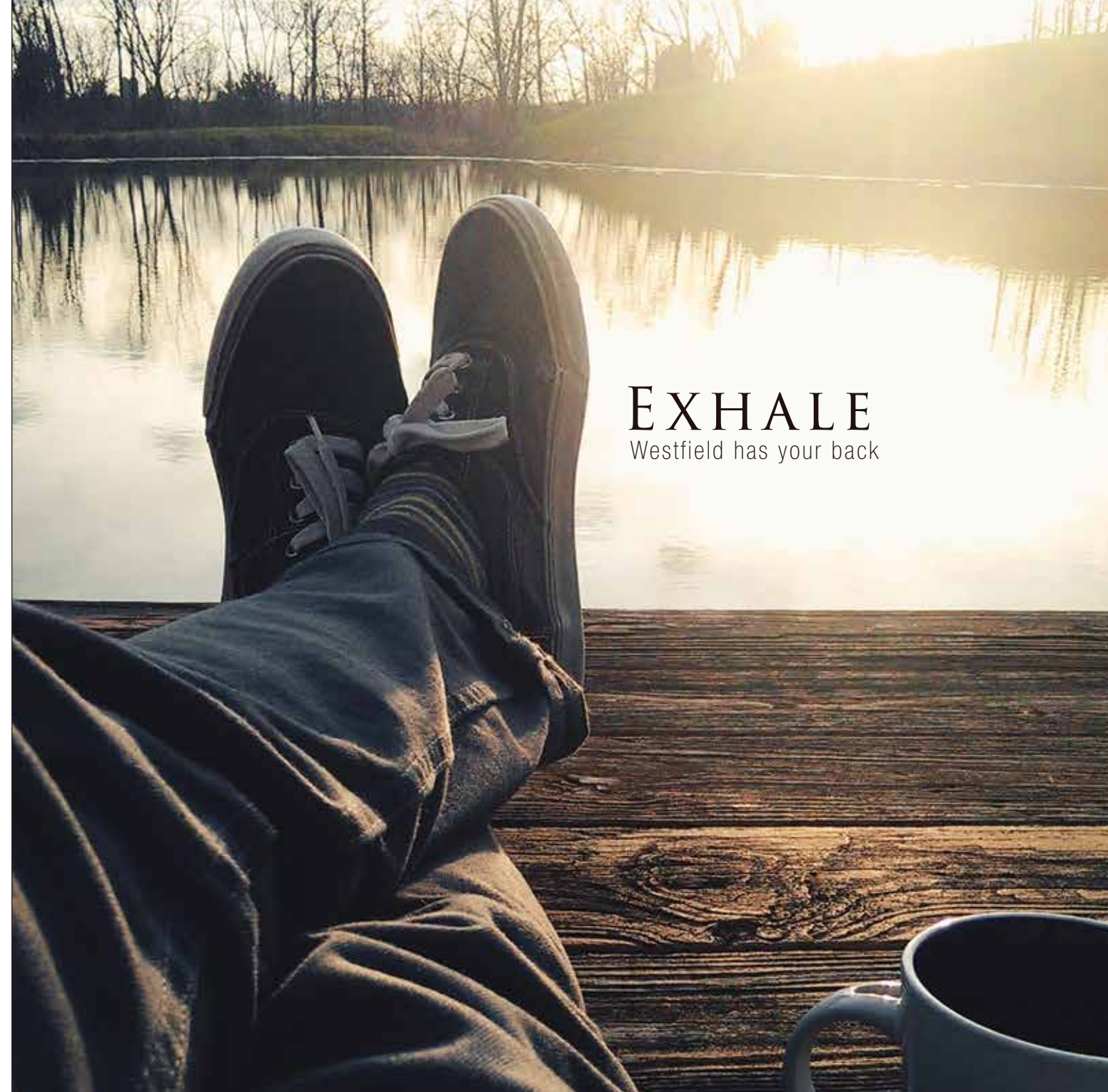
priority is to move the company forward so we can continue to serve our customers for the long term.”

To weather financial storms, operating profits in mutual companies are usually retained to finance growth or to save for future liabilities. The mutual model is especially durable; it was there in 1752, it’s here today, and it will be tomorrow. Mutuals serve policyholders. It’s all they do.

“We don’t need artwork, and we can buy chairs at Target—we don’t care and our customers don’t care,” says Stuart Henderson, president and CEO of Western National Insurance Group. “We impress policyholders by giving them good prices and great claim service, as opposed to impressing stockholders with big dividends.”

EMERGENT ISSUES AND 21ST-CENTURY RISKS

While some hazards, like fire, wind, and hail, that gave rise to the creation of mutual insurers are still relevant today, as our economy and technology have grown, so have mutual insurance companies. Whether it’s providing the right coverage for your Uber driver or using drones to aid in evaluating claims after a disaster, mutual insurers are at the forefront of insuring 21st century risks. In fact, NAMIC was recently invited to provide in-



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MUTUAL INSURANCE

insurance expertise to the newly formed Unmanned Aircraft Safety Team by the Federal Aviation Administration.

Meanwhile, the industry faces risks even Ben Franklin could not have imagined. Westfield Insurance leverages processes around enterprise risk management, as well as consultants, distributors and its own product team to track emerging risks in once-esoteric areas such as data-compromise, nanotechnology, even e-bullying.

“The world is getting more complex which means a more volatile risk environment,” notes Ed Largent, Westfield President, CEO and Board Chairman. “We are striving to employ the latest technology coupled with our talented people to meet the challenges of this complexity. Westfield continually evaluates emerging trends and considers them in the context of our business.”

While NAMIC is working to make sure Congress reauthorizes flood insurance—an age-old but pressing problem today for businesses, homeowners, and insurers—it is equally concerned with cybersecurity, especially for companies with both economic and reputational losses on the line. The association also successfully pushed for the reauthorization of TRIA (the Terrorism Risk Insurance Act), which was enacted after 9/11. In the wake of those terrorist attacks, the industry paid out some of the largest claims in history.

NEW MARKETS AND CORE STRENGTHS

New challenges and risks are driving some mutuals to create new products and expand into new areas in order to diversify and grow. Several years ago, for example, Western National branched out into nonstandard auto insurance primarily for Mexico-licensed drivers in the Southwest unable to get coverage from standard insurers. The company currently writes \$100 million a year in nonstandard auto insurance.

At COUNTRY Financial, farmers still account for an important segment of the company’s most valued customers, but others in the cities and suburbs do, too. “We build relationships with customers who value expert advice in the states where we do business. As the needs of policyholders have changed, we have changed with them. It’s not so simple anymore,” says CEO Kurt Bock. “There are risk exposures from cyber-liability and other technology and lifestyle changes that will continue to add risks that we want to help customers protect against. The needs of our first farmer-customers are also more complex—it’s become a supply-chain business, with farmers taking their products directly to consumers and across global markets. But whatever customer needs are, our mission is to serve and protect them.”

Over the past decade, meanwhile, Westfield Insurance has multi-million dollar investments in data and analytics and in claims capabilities that involve people, skills, processes and technology highlighting the capital management opportunities of a mutual company.

But mutuals today must also keep their core strengths in mind. During the financial crisis, the majority of major municipal bond insurers lost their way by underwriting collateralized debt obligations (CDOs) for tranches, or portions of structured financing, of mortgage-backed, subprime securities. Five of seven companies had ventured into a business with much greater severity of loss than they anticipated and were downgraded in the aftermath.

“One of the major lessons from the crisis was that there is a fundamental tension and conflict between policyholder interests and shareholder interests,” says Seán McCarthy, co-founder and CEO of Build America Mutual (BAM), the first mutual bond insurer, who came from one of the companies that avoided underwriting the high-risk CDOs. “In starting BAM, we determined that the mutual insurance model ad-



WHATEVER CUSTOMER NEEDS ARE, OUR MISSION IS TO SERVE AND PROTECT THEM.

CEO KURT BOCK
COUNTRY FINANCIAL

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out dividends or having a share buy-back program that would take capital from claims-paying resources.”

MUTUALITY

Meanwhile, employees at mutual insurance companies regularly contribute their time and resources to causes, finding a higher purpose in helping people in need.

At Western National, for example, employees are given a day off for volunteering and get to decide which charitable organizations to help fund. In addition, an intern program hires employees’ college-age children, and they report finding the most satisfaction in performing service work.

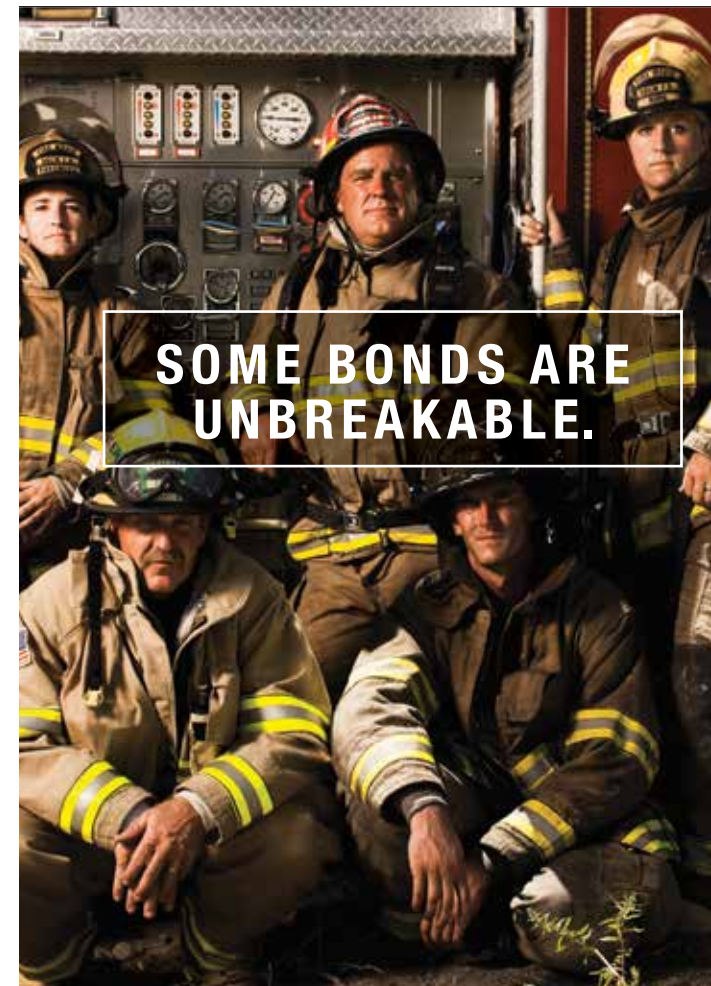
“It’s a sense of social purpose that I don’t see in stock companies,” states Western National’s Henderson. “It ties into mutuality to me that people feel like we’re in this together. We’re not just an insurance company; we don’t just put paper out. Who wants to come to work to do that? We put lives back together.”

dressed the issue head-on by eliminating the financial shareholder altogether. Another lesson we learned from the crisis was the importance of avoiding ‘mission creep.’ We determined that sticking to a core business with consistent, conservative underwriting standards that focus only on municipal bonds from the 50 states and excludes all territories is both good for the members and good for investors.”

BAM’s low-risk underwriting ap-

proach extends into the municipal market itself, where the company has no exposure to the Puerto Rico credits that defaulted earlier this year.

“In our charter and bylaws, we define the line of business that we’re in so we can’t change,” he says. “Internally we think about our mission to help finance infrastructure: Doing good while doing well. Our sole goal for the company is to make ourselves bigger, stronger, and more stable over time, without paying



SOME BONDS ARE UNBREAKABLE.

We share a bond with the men and women in the cities and towns across America who keep us safe, secure and strong. These municipal workers protect our lives and property, insure our common good, and share the same passion for building America that we do. We are the most innovative and transparent company in the industry, and our guaranty makes infrastructure more affordable and investments safer: To give your bonds a higher credit rating and lower interest costs.

The feeling is mutual.



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