Interview with Donald A. Duello, President Chief Executive Officer of Shelter Insurance Companies

The percentage of the market controlled by mutual companies has remained steady for the last 40 years.

Mutual companies play an important role in world insurance, however the wave of de-mutualizations which has begun in the USA and which affects insurance giants such as Metropolitan Life, Prudential or John Hancock, will reduce their role in life insurance. In contrast to this, non-life mutuals in the USA have since the 20s held a stable market share of around 30%, and the largest non-life insurer is a mutual. In this interview, Donald A. Duello, President and CEO of Shelter Insurance Companies, talks about these and other subjects.

Mr. Duello was born in St. Charles, Missouri, USA. He is a graduate of the University of Missouri at Columbia, Missouri with a Bachelor of Science degree in business Administration. He is also a Certified Public Accountant. Prior to his employment with the Shelter Insurance Companies, Mr. Duello was an Audit Manager for Coopers & Lybrand (now PricewaterhouseCoopers). He joined Shelter Insurance in 1968 as Manager of Internal Auditing. He later served as Secretary to the Board of Directors, Vice President of Finance, Managing Director of Shelter Reinsurance Company, and Executive Vice President. Mr. Duello currently serves as President and CEO of the Shelter Insurance Companies. He is also a member of the Board of Directors of Shelter Insurance and MAPFRE RE.

Questión: When, where and how did mutual companies start in the United States?

Answer: Both stock and mutual ownership forms have existed in the United States since the late 18^{th} century. The mutual Assurance Company was founded in 1784 to provide fire insurance, while the first stock insurer, The Insurance Company of North America, was founded in 1794 to provide fire and marine coverage.

There was little perceived need by the public for life insurance in the United States until industrialization and urbanization accelerated in the first half of the 19^{th} century. The first mutal life insurance company, Mutual Life Insurance Company of New York (MONY), began operation in 1842 and was followed quickly by several more mutuals.

Q: How did Shelter mutual arise?

A: A farm cooperative, Missouri Farmers Association (MFA), was founded in 1914 and became the largest single-state farm organization in the United States. After World War II, automobile sales were booming and improved all-weather roads were being built in rural Missouri. For these reasons MFA decided to form a mutual insurance company to insure automoviles in rural communities. Shelter Mutual startes as MFA Mutual Insurance Company in Columbia, Missouri, USA. MFA Mutual was formed by MFA in 1945 and started selling insurance on January 2, 1946.

In the late 1970s problems over the use of the name MFA and its logo caused MFA Mutual to change its name to Shelter Mutual.

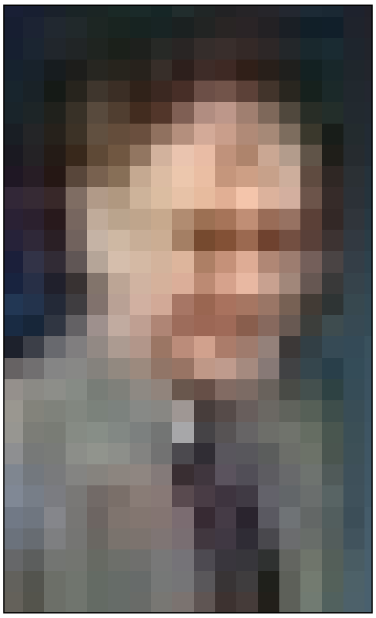
Q: Can you list some advantages and disadvantages of being a mutual company in the American market?

A: I believe the loss of control to stockholders whose wants and needs may be very different from the policyholders is the biggest advantage of a mutual company over a stock company. A disadvantage of a mutual insurance company is all its capital must be internally generated and this can limit its ability to expand.

Q: If you examine the way that capital is structured in some of the largest insurers in the world you often find that many mutual companies act as the parent company of a holding company. This is especially evident in Japan and the USA. Why does this occur in these two markets?

A: The size of the economy allows for a high degree of specialization within it. This specialization favors the situation where the large mutual companies head economic units with different interests, not only within the area of insurance but also related to prevention, real estate, research, investment, etc. From another perspective, the creation of new mutuals will be limited, but since there is little competition the present mutuals should continue growing.

Q: How many mutual companies are there in the United States and what is their market share?



A: There are aproximately 500 mutual property and casualty insurance companies in the United States and they write about 24% of all the property and casualty premiums.

Q: In what ways do mutual companies collaborate?

A: Apart from being represented in various American insurance authorities and institutions, the association which brings together mutual companies is the National Association of Mutual Insurance Companies (NAMIC). Shelter Mutual is a long standing member.

Q: Can the principles that inspired mutualism survive in the information age and in an environment in which a great deal of power has been transferred to the financial markets?

A: The largest property and casualty company in the United States is a mutual and is surviving very well. The percentage of the market controlled by mutual companies has been holding steady or expanding for the past 40 years. A company dedicated to one master, its customers/policyholders, has a distinct advantage. ■

THE INFLUENCE OF MUTUAL COMPANIES

World insurance would not be the same without mutual companies. A recent international report stated that half of the top ten large international insurers are mutuals and are based in the USA and Japan. Eight of the largest nine insurance companies in Asia are mutuals, all of them Japanese. Half of the top 22 American insurers are mutuals. In Europe the origins of the mutuals date back to the trades' guilds of the middle ages, and although there are now a large number of mutual companies there is not one among the top ten companies. It should not be forgotten however that a global company such as AXA, for example, had its origins in a group of French mutuals.

One strong point that mutuals have is the absence of conflicts between the owners and the clients of the company, as they are both one. On the other hand access to financing sources is limited, in almost all cases this is overcome by setting up holding companies which are controlled by a majority shareholding held by the mutual company, with part of the capital placed on the financial markets.

In the case of the USA, after 1920 the property and casualty mutual insurance companies grew dramatically and achieved a significant market position, going on to take a market share of around 30%. This position has continued until the present time, and there are no indications that this will change in the short term.