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Gore Mutual Insurance Company: Building Resilience in the Eye of the Storm

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CASE STUDY

Gore Mutual Insurance Company: Building Resilience in the Eye of the Storm

During the last few weeks of 2023, Gaby Polanco Sorto was drafting a review of the very eventful year for the Board of Directors of Gore Mutual Insurance Company. As Vice President and Head of Purpose and Sustainability for the mid-sized Canadian regional insurer, Polanco Sorto was keenly aware of the challenges Gore and the Canadian insurance industry had weathered in 2023 and the prospect of tougher challenges to come. Canada had seen more than 71,000 square miles (45 million acres) burned by wildfires this past summer– a number that was more than twice the previous record in North America. Smoke from the fires sparked air quality alerts across large sections of eastern Canada and the United States, and the smoke ultimately reached Europe as well.

Wildfires are not a new phenomenon, but their scale and frequency were increasing rapidly, and their financial impact in 2023 was unprecedented. The Insurance Institute of Canada reported that Canada was experiencing twice the global average impact of environmental warming. In Canada's north, warming was three times the global average.[1] As Polanco Sorto thought about helping the Board put the year in perspective and focus on the challenges that inevitably lay ahead, she suggested that they think of Gore as doing business in the eye of an increasingly destructive storm.

No business sector was more directly affected by natural disasters than the insurance industry, whose members were responsible for the costs of rebuilding and repairing property damaged by natural disasters. Globally, these costs had grown enormously over the previous 40 years (Figure 1), and in Canada they were estimated to have doubled every 5 to 10 years since the 1980s. This trend was widely attributed to the direct and indirect impacts of climate change, a phenomenon that was expected to continue growing for decades, even if mitigation goals were achieved.

The Insurance Institute of Canada projected that, "The average annual severe weather claims paid by insurers in Canada could more than double over the next 10 years, increasing from $2.1 billion a year to $5 billion a year, and must be accompanied by an increase in premium income."[2]

The threat to property and casualty (P&C) insurers like Gore was profound as they faced this unprecedented expansion of the risks they insured. Polanco Sorto was keenly aware of the experience of US-based insurers that had been affected by Hurricane Ian a year earlier, which inflicted $60 billion of insured losses, mostly in the state of Florida. As a result, six Florida-based insurers declared bankruptcy and a number of larger firms discontinued issuing, or even renewing, policies in the state.

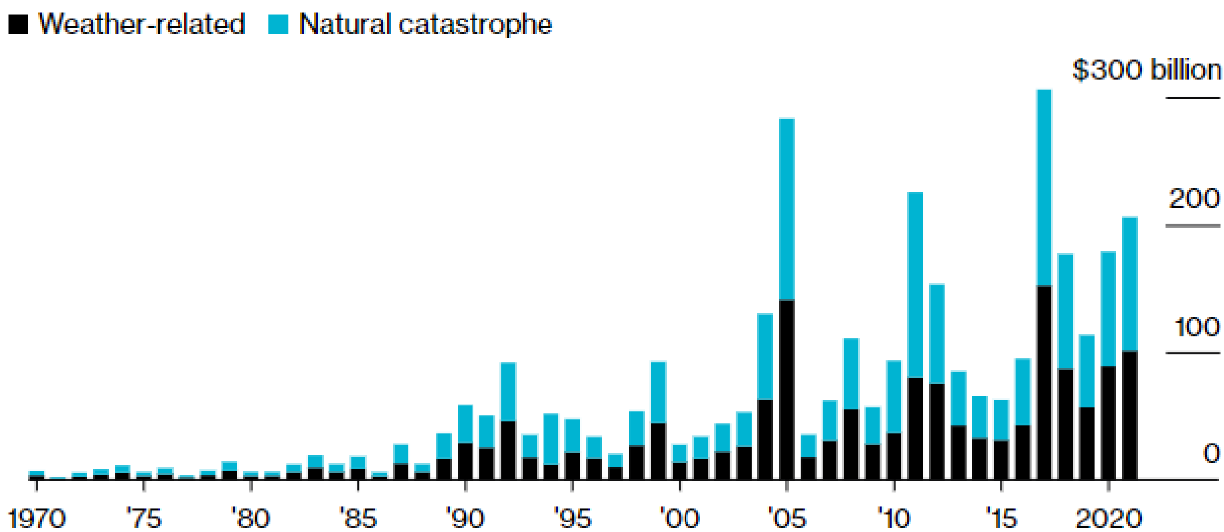
The impact on homeowners was equally profound. As insurers sought to compensate for the increased risks of natural disasters by raising the premiums they charged proportionately, the Insurance Information Institute estimated that, "the average Florida homeowner is paying nearly $6,000 for their property insurance, which is over triple the national average of $1,700."[3] Going even further, many major insurance companies were discontinuing property and casualty (P&C) coverage in highly vulnerable areas. One insurance insider noted the irony that insurers seemed to be abandoning precisely those

[1] Insurance Institute of Canada, "Climate Risks: Implication for the Insurance Industry in Canada," p. 9, 2020. https://www.insuranceinstitute.ca/en/resources/insights-research/Climate-risks-report, accessed 17 Nov 2023
[2] Ibid., p. 5
[3] https://www.businessinsider.com/personal-finance/homeowners-insurance-florida-cost-rising-2023-7

customers who most needed them: "The same risks that are making insurance more important are making it harder to get."[4]

Polanco Sorto began drafting her report by observing that, "The impact to the industry in Florida is a taste of the future all P&C insurers face. How we position Gore to face these increasing risks, and offer our policyholders solutions that enhance their resilience, too, will determine our success."

Figure 1. Global Trend in Insured Property & Casualty Losses



Source: Swiss Re Institute, quoted in Rathi A, "Climate is Forcing the Most Risk-aware Industry to Reinvent Itself," Bloomberg.com, 24 Jan 2023, https://www.bloomberg.com/news/articles/2023-01-24/climate-is-forcing-the-most-risk-aware-industry-to-reinvent-itself?sref=ph3kjG2x *[Note: Figures in 2021 prices]*

The general role of insurance is to provide resilience to its customers in the face of risk. If your home burns down, your insurer provides a payment that enables you to rebuild or repair it. However, at least two different organizing, or structural, philosophies can be applied to the concept of insurance, and each one inspires a different corporate form:

1. One view is that it's a straightforward business. Insurers earn a profit by assessing and pricing risk accurately, in much the same way that banks earn a profit on loans. In banking, lenders survive by assessing each borrower's repayment risk and pricing each loan accordingly, so that interest income on the bank's entire portfolio of loans is greater than its losses on loans that are not repaid. Similarly, insurers assess the risk of providing homeowner's insurance to each customer and then charge a premium that they believe will cover the losses on their portfolios of insured property and still produce a surplus (profit). This philosophy underpins the majority of P&C insurers, which produce profits primarily for distribution to their corporate owners/shareholders.

2. Another view sees insurance as a social compact. Modern insurance has its roots in agreements that were made among 16th century European traders, who insured one another's ships in what was then a very risky enterprise. After the Great London Fire of 1666 destroyed 13,000 houses,

[4] Bogage J, "Home insurers cut natural disasters from policies as climate risks grow," Washington Post, 3 Sep 2023, https://www.washingtonpost.com/business/2023/09/03/natural-disaster-climate-insurance/

> the wider social need for insurance became obvious. P&C insurers evolved as a means for property owners to band together to share the risks of fire, flood and other disasters. In a sense, insurance was the opposite of the 'tragedy of the commons.' It was the 'shared resilience of the commons.' The premiums of the many pay for the losses of the few. Mutual organizations – cooperatives of sorts – enable customers to pool their resources effectively to reduce each member's risk of catastrophic loss.

As a mutual insurance company, Gore is owned by its customers/policyholders, rather than by corporate owners or shareholders. This ownership structure simplifies decision-making, because the company can focus on serving just one group of stakeholders – policyholders are both customers and company owners. To some degree, this allows management to focus on long-term goals rather than base decisions on their short-term profit impact. In contrast, corporate insurance companies have to deliver both customer value and short-term shareholder returns. Under a corporate organizational structure, value delivered to shareholders is value that is explicitly not delivered to policyholders.

Future-proofing a Venerable Firm

Gore is Canada's oldest mutual P&C insurer, founded in 1839. It operates as a regional insurer, primarily in Ontario and British Columbia. In 2019, Gore's Board of Directors decided that the company had reached a crossroads. The Board initiated a strategy review to determine how the company could manage the challenges they saw clearly on the horizon. The risks of increasingly frequent and costly natural disasters were particularly challenging for smaller firms like Gore, whose largest Canadian competitors were twenty times its size in revenue and assets. CEO Andy Taylor described the challenge this way:

> *We determined that Gore faced some existential threats, given our relatively small size. Our most important limitations were scale, diversification, and access to capital. This left the company vulnerable in the face of climate change, increasing industry competition, and changing consumer values.*
>
> *As a result, we decided to invest in a complete transformation of our business with the goal of increasing scale, enhancing diversification, harnessing technology for smarter, more efficient operations, and improving our financial strength. We believe that to achieve these goals, we must develop scalable technology, modern talent, and an efficient operating model, all of which require some very serious investment.*
>
> *But as we were thinking our way through our transformation process, we understood that even with world-class technology and talent and an efficient operating model, our size was an obstacle. We were on track to make ourselves a smaller version of our competitors!*
>
> *This realization led us back to the question, What's our unique value proposition? If we're going to reimagine our business and transform it so that our operations look exactly like our competitors, what is our point of differentiation, where is our competitive advantage?*

Believing that the status quo would leave the company ill-equipped to compete in this increasingly challenging environment, and that they faced an opportunity to shift the basis of competition to Gore's advantage, the Board adopted a multi-faceted transformation plan dubbed Next Horizon.

As an essential component of Next Horizon, the company increasingly focused on creating a Purpose-driven organization as the means to introduce a unique and positive value proposition, distinguishing Gore's offering in a challenging environment. Gore's mutual structure seemed ideal for a Purpose-driven strategy, which Polanco Sorto described this way: "Purpose is how we can use our resources, finances and operations for the good of society. It is thinking about what we can do today to prepare for tomorrow." To achieve resilience in the face of climate change, Gore had to think about more than how to price its policies at a profit. It had to take the lead in organizing resources to minimize both the cost and the other impacts of climate change on the company, its policyholders, and other stakeholders. Polanco Sorto formulated this as three pillars of purpose:

1. Be Good: Being committed to doing business the right way, holding ourselves and our partners to a higher business standard.
2. Do Good: Striving to influence change in our industry, creating more resilience and generating value for customers, employees, broker partners and vendors.
3. Spread Good: Creating measurable positive impact in our communities, with a primary focus on poverty, social equity and resilience to climate change.

Infusing Purpose Across the Value Chain

As it set these goals, management recognized that Gore did not control several key links in its value chain. For the new strategy to succeed, Gore needed the active collaboration of three sets of strategic partners, each of which played a key role in the value chain that enabled the company to deliver its safety net to its customers: (1) independent insurance brokers (agents), (2) investment managers, and (3) reinsurance companies. Of these three sets of partners, brokers were the most pivotal.

Independent insurance brokers were Gore's primary source of new and renewed policies. When homeowners and businesses needed insurance, they typically turned to independent insurance brokers who would help them narrow their choices to a small set of insurers best positioned to meet their needs, and then solicit competitive quotes. Gore relied on its independent broker partners to include its policies in the small consideration set they offered to quote for customers. The brokers' positioning of Gore versus the other insurers from whom they solicited policy quotes was perhaps the most powerful factor, along with price, in the customer's ultimate choice.

Unfortunately, in some important ways, independent insurance brokers' goals were not directly aligned with Gore's. Each broker represented a portfolio of insurance providers that included, by definition, Gore's competitors. Brokers' role was to match customers with the insurer(s) that could best meet their needs on the most favorable terms. Often, this meant finding the lowest price, not the most sincerely Purpose-driven company.

To succeed with its new strategy, Gore had to convince independent brokers that the value it offered was more than just a price quote. They had to communicate the uncomfortable thought that risks, and hence costs, were rising for everyone. This might not make brokers popular with their customers, and so they might prefer to focus on low prices as the decision factor. While Gore was often competitive when price was the key decision factor, management thought they could do better by changing the conversation. Regardless of how competitive Gore's prices were, they wanted to communicate the idea that price should not be the most important consideration in a world of increasing risk.

Communicating this to customers was another challenge. Gore conducted consumer research in connection with its evolving value proposition. The results were not always what management hoped to hear. For example:

- A lower price was found to be three times more effective than Purpose in winning a new policyholder from a competitor (58% vs 20%).
- About 33% of customers in Gore's target market would choose a Purpose-driven company only if it did not cost more.
- An additional 22% would pay only a token amount (less than 5%) more.

- These insights called into question Gore's ability to change the conversation when its financially more muscular competitors could underprice it at any time.

Could Gore change the way consumers (and brokers) were thinking about this decision? And could this be done in a way that encouraged independent insurance brokers to advocate for Gore's Purpose positioning?

Purpose as a Source of Competitive Advantage

Insurance companies are becoming the unwelcome bearers of bad news. As climate change amplifies the financial cost of natural disasters, the price of P&C insurance policies must inevitably rise, in some cases by a lot. The pool of premiums paid by policyholders has to cover the rapidly increasing costs of recovering from these disasters. Policyholders' insurance bills, often received and paid every month, put the impact and the cost of climate change front and center for every household and every business, making climate a very personal issue.

For this reason, Gore's new Purpose strategy was essential, in Polanco Sorto's opinion. It was one way for the company to change consumers' perceptions of its insurance policies and the increasing bills that accompanied them. Rather than positioning Gore as simply the traditional source of financial compensation for property damage, the company hoped to position itself as its policyholders' ally, helping them to understand the personal impact of climate change, build practical resilience, and instill confidence that they did not face an increasingly hostile environment alone.

By adopting its Purpose framework, Gore's Board sought to create a corporate ethos that enabled it to embrace the unpredictable future, both for the company's long-term success and for its policyholders' individual security. By acknowledging the risks, they hoped to better understand, prepare for, and price the threat of a changing climate. They sought to communicate Gore's commitment to stand with its policyholders, who also faced an unpredictable future, by sharing its expertise and resources.

Polanco Sorto believed that positioning Gore as an active resource for its policyholders, rather than simply a financial transaction, had the potential to increase consumers' *Willingness to Pay*[5] and Gore's competitive advantage. By offering its customers resilience and confidence, she hoped to enhance their loyalty, grow Gore's market share, and increase its pricing power. To implement this strategy, however, Gore had to move quickly to establish its credibility as a provider of resilience by:

1. Infusing Purpose into its consumer interactions in ways that were clear and meaningful to (a) employees (Be Good), (b) policyholders, brokers and other stakeholders (Do Good), and (c) the communities in which they operated (Spread Good).
2. Demonstrating specific, clear, and easily understood ways in which Gore strengthened policyholders' resilience.

Paul Jackson, Gore's Chief Operating Officer, saw the need to work with Gore's partners across its value chain as both a challenge and an opportunity. "As our Be Good / Do Good / Spread Good model says, it's more than just what we do; we want to inspire others to do good as well." In order to succeed, Gore needed its independent brokers, in particular, to actively support its Purpose strategy. Jackson and Polanco Sorto had a discussion that addressed some of the difficulties involved:

> <u>Polanco Sorto</u>*: As we implement a Purpose-driven strategy, how can we better manage the risks and costs of increasing natural disasters? It doesn't feel right for a Purpose-led company to*

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[5] The competitive strategy concept of *Willingness to Pay* is a measure of the value the customer attributes to a product or service. Companies with a true competitive advantage experience a greater *Willingness to Pay*, and this pricing power is proof of, and reward for, a competitive advantage.

abandon customers in the face of climate change, or to raise prices to unaffordable levels. How can we avoid going down this path and instead become a resource for our policyholders?

Jackson: We already do more than just put a price on risk. When a policyholder files a claim, we don't just write them a check and leave them to figure out how to recover on their own. We provide solutions, recovery plans, and skilled contractors to do the work, because we have unique expertise and access to resources that enable us to repair damage quickly, safely, effectively, and affordably. When a policyholder calls us with a claim, we send an adjuster and a contractor immediately to assess the damage and get repairs made quickly and cost-effectively. We provide solutions because we can do it better, and at a lower cost, than the individual homeowner could.

Polanco Sorto: That definitely offers the policyholder real value, but it is only relevant after something bad has happened. Isn't there some way to help our customers avoid or mitigate climate risks? Wouldn't it be powerful if we could find a tangible way to build our policyholders' resilience and help them feel more confident in the face of climate-driven risks?

Making Purpose Tangible

As Gore delved deeper into Polanco Sorto's question, Vance Somerton, Gore's Director of Claims, was evaluating practical solutions based on the patterns he saw in customer claims. One of the most common risks Gore's policyholders encounter is the risk of flooding from indoor plumbing failures. A burst or leaking pipe in a home can cause a lot of damage. In a high-rise condominium, the scale of damage can be much larger as water cascades through a building. Gore insures many condominiums in cities like Vancouver and Toronto, and plumbing-related flooding is a major source of property claims.

Plumbing-related incidents – as long as they do not involve sewage pipes – typically involve clean water and do not pose a risk of contamination. This simplifies the clean-up process. Polanco Sorto identified an environmentally oriented clean-up process called EcoClaim, which interested Somerton right away.

The EcoClaim methodology offers training that prioritizes drying and repairing, rather than replacing, materials affected by indoor flooding. It also maximizes recycling of damaged materials and minimizes the amount that is disposed of as trash. Somerton estimated that using EcoClaim would enable Gore to avoid sending more than one million pounds of material annually to landfill compared with traditional remediation methods. EcoClaim offered policyholders a number of advantages, too. Drying, rather than replacing, items like wood floors, carpeting, and tile usually produces a better aesthetic result – because matching such materials years after they were installed is often impossible. Drying also produces less disruption to homeowners and their neighbors, compared with tearing out and replacing walls, floors, and other materials, and the job is completed much faster.

The beauty of EcoClaim, then, is that it delivers benefits to the policyholder, the environment, and to the insurer. In 8 of 10 cases, claims were resolved faster and at a cost averaging 25% less than the traditional approach of replacing everything. This savings was expected to produce a substantial improvement to the company's overall income statement. According to Somerton, "We expect it to drive a 1% improvement in our Personal Property Loss Ratio (ratio of claims paid to premiums received) for the entire P&C business. That's big dollars for us. There's nothing better than a highly efficient claim process when it comes to saving money – not to mention the environmental benefits."

After internal review, Gore became the first Canadian insurer to require its contractors to obtain EcoClaim certification in July 2023. As a smaller organization that could take action nimbly and decisively, Gore was able to evaluate and adopt the EcoClaim process before its competitors. That was expected to provide an advantage for a period of at least a year, possibly more, making Gore more competitive in winning new business, more profitable, and more able to allocate those profits to other initiatives that would give the company a competitive advantage. Equally important, it positioned Gore as an innovator.

As EcoClaim delivered environmental, financial, and customer-relationship benefits, Somerton and Polanco Sorto screened other operational methods that might change the conversation with policyholders by making Gore's Purpose strategy tangible. At the same time, they promised to deliver financial benefits to Gore as well.

Somerton then dove into an evaluation of a similar methodology that provided remediation from smoke damage. Over the summer, Gore had processed many claims for secondary smoke losses related to wildfires. These homes and commercial buildings were not actually burned, but exposure to heavy smoke for prolonged periods did very real damage.

There were a number of restoration and recovery methods that improved the contractor's chances of removing smoke odors from fabric, furniture, carpeting and so on. Like EcoClaim, they had to be implemented immediately. This put great value on an educated, fully empowered employee base. Properly trained field adjusters had to be given the authority to implement remediation strategies without waiting for approval from the home office. Their responsiveness could make Purpose tangible to all stakeholders, especially policyholders. It could also reduce the costs of remediation.

Adjusters at large companies were afraid of making these kinds of decisions because they expected to be second-guessed and penalized if remediation efforts didn't work. In contrast, Somerton made it clear to Gore's adjusters that he did not expect remediation to work in every case. With a reasonable record of success, Gore would still come out ahead.

Polanco Sorto was very happy with the company's decisive adoption of EcoClaim and its rapid review of smoke-related remediation processes. They were two very concrete ways of making Purpose tangible and demonstrating Gore's unique way of doing business, to policyholders, employees, and brokers. And yet, as she thought about these innovations, she was not entirely satisfied. Discussing them with Somerton, she thought that they had to expand the focus:

> <u>Polanco Sorto</u>: *These methods definitely offer policyholders real value – once they are facing property damage and have filed a claim – but I think we have to offer something that demonstrates that we give policyholders better resilience upfront, before they have a claim. Isn't there something we can offer that would prevent damage to our policyholders' property in the first place? That would be a dramatic way of demonstrating the relevance of Purpose and our unique value proposition.*
>
> <u>Somerton</u>: *We've been talking about the problem of water damage from indoor plumbing failures. Some of these claims could be avoided if backflow shutoff valves were installed.*
>
> <u>Polanco Sorto</u>: *I like that. It's a tangible step in the right direction, even if it doesn't address the big risks of climate change – flooding, wildfires, and so on. If we were to go out on the street right now and ask a homeowner, 'What's the difference between all these insurance companies?' they'd probably say that they don't know. But if Gore had a program that came to your home and made it safer and more resilient, it could really set us apart.*

As Polanco Sorto focused on developing a strategy for building customers' resilience in an increasingly uncertain and risky world, she thought that offering something tangible to policyholders that would improve their resilience *before* they experienced a loss might be a very effective differentiator versus Gore's competitors. For example, Gore could commit to installing backflow shutoff valves on the premises of all insured properties, reducing the risk of flood damage. The cost of installation might be offset by fewer claims, or it might be shared between Gore and the policyholder. The tangible support represented by the shutoff valve might create a stronger *Willingness to Pay* among policyholders.

Discussion Questions

1. Gore is reluctantly the bearer of bad news month after month as the costs of climate change are embedded in its billing statements. How can it manage the impact of this cost on its relationship with policyholders? How can it change the conversation?

2. Polanco Sorto's interest in giving policyholders backflow shutoff valves could be tangible evidence of the company's commitment to protecting its policyholders' property. It could also cost a lot without producing adequate benefits. How should Gore evaluate this idea? If adopted, how should Gore communicate the value proposition?

3. As Paul Jackson suggested, Gore must pay attention and measure the costs and benefits of new operating methods. To some extent, Gore might tolerate benefits that were only realized indirectly, and over longer payback periods, than they traditionally tolerated. For example, increased customer retention might drive substantial value to the company over a period of several years as policyholders became convinced of the value of Gore's Purpose commitment. How would Gore go about measuring indirect impacts such as improved customer retention or improved win rates on new business?

4. Gore needs the active support of independent insurance brokers to reach new customers and help retain existing policyholders. How can the company enlist independent brokers to communicate its Purpose-driven strategy clearly and effectively? Even Gore's own research shows that price is the most easily understood and valued factor in comparing insurance policies.

5. Relatedly, as Gore tries to understand the value of any competitive advantage its strategy has created, how can it measure changes in customers' *Willingness to Pay*?

6. Traditional economics theory asserted that businesses 'do good' by making a profit and that they 'spread good' as social benefits flow from the wealth created by profitable companies. This theory claimed that explicitly pursuing social good in the normal course of doing business might distract employees from their primary goal of operating profitably and, in doing so, reduce the wealth that was available to flow secondarily to social causes. Would Paul Jackson, Gore's COO, agree? How might management engage employees in its Purpose strategy in financially productive ways?

7. How can Gore communicate to customers what it means to be a policyholder/owner of a mutual insurance company in ways that they are most likely to value?