Fraternal Insurers Moving Forward with Technology

by Scott Hawkins, Head of Insurance Research

Fraternal insurers are not lagging their mutual and stock brethren when it comes to investing in IT. This is crucial, as technology is an increasingly crucial part of attracting new customers and managing a modern insurance business.

Across-the-Board Growth in Fraternal IT Spending

Where do we see evidence of the fraternal sector's commitment to technology? One clear source is the statutory data filed by life insurers. Those data report the annual cost or depreciation of EDP (electronic data processing) equipment and software.
Over the period of 2019 through 2024:

- IT expenses grew at a 13% CAGR (compound annual growth rate) for the fraternal aggregate of 63 companies compared to 6% for mutual companies and 5% for stock companies.
- The fraternal IT expense CAGR was 4× the 3% CAGR in their General Account liabilities; in comparison, mutual and stock companies were just 1× their General Account liabilities.
- However, this difference reflects the slower CAGR in liabilities compared to mutual and stock companies.
- That said, fraternal IT expenses increased from 4.8 bps (basis points) of average General Account liabilities in 2019 to 7.4 bps in 2024. Mutual insurers saw an increase from 8.3 bps to 8.4 bps, while stock insurers were essentially flat at 9.1 bps over that same period.
- These data points suggest that fraternal insurers have been ramping up their technology investments since 2019 faster than either mutual or stock companies.

What is noticeable is that the growth in IT investment is across the fraternal universe and is not limited to just the largest fraternal insurers.

We categorize the fraternals based on General Account assets at the end of 2024. The largest group consists of fraternal insurers with $1 billion or more in assets. The middle group consists of companies with $100 million to $1 billion in assets. The smallest category has less than $100 million in General Account assets.

Both the largest and middle groups had the same CAGR in technology, while the smallest group's CAGR was still two percentage points higher than the stock companies and three percentage points higher than the mutual companies.

The largest group had a 13% CAGR in technology investments over the period of 2019 through 2024. The average technology spend for this group was $8.2 million in 2024 compared to $4.2 million in 2019.

Figure 1 - Large Fraternal Group: Top 5 IT Expenses CAGR 2019-2024
$ in millions

Rank	Company	5-Year CAGR	2024 IT Expense
1	National Slovak Society of the USA	128%	$1.9
2	GBU Financial Life	67%	3.3
3	Modern Woodmen of America	58%	17.3
4	GCU	43%	1.9
5	First Catholic Slovak Ladies	30%	0.2

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The middle group also had a 13% CAGR in technology investments over the period of 2019 through 2024. The average technology spend for the middle group was $252,000 in 2024 compared to $151,000 in 2019.

Figure 2 - Middle Fraternal Group: Top 5 IT Expenses CAGR 2019-2024
$ in millions

Rank	Company	5-Year CAGR	2024 IT Expense
1	Luso-American Financial	161%	$0.01
2	Slovene National Benefit Society	144%	0.18
3	Hermann Sons Life	114%	0.38
4	Mutual Beneficial Association, Inc.	25%	0.03
5	KSKJ Life	22%	1.07

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The smallest group had an 8% CAGR in technology investments over the period of 2019 through 2024. The average technology spend for the smallest group was $22,000 in 2024 compared to $15,000 in 2019.

Figure 3 - Smallest Fraternal Group: Top 5 IT Expenses CAGR 2019-2024
$ in millions

Rank	Company	5-Year CAGR	2024 IT Expense
1	Artisans Order of Mutual	29%	$0.01
2	Czech Catholic Union	26%	0.00
3	The Travelers Protective Assoc.	9%	0.04
4	Assured Life Association	6%	0.11
5	Supreme Council of the Royal	6%	0.17

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Investment Tech Unevenly Distributed ... So Far

When it comes to how insurers are using technology, the investment unit is often overlooked by analysts. As regulations combine with a wider diversification of asset types, the administrative and risk management burden on investment units increases. When we look at the data, it is no surprise that we find some life insurers spending more on investment technology.
As with broader technology expenses, fraternals are also committed to building their investment technology. While mutual insurers and stock insurers have generated a 9% and 10% CAGR, respectively, in investment technology expenses over the period of 2019 through 2024, fraternal insurers reported an 11% CAGR.

Unlike the broader growth in technology, there is a clear size difference when it comes to investment technology. Eight of the 14 largest fraternal group companies reported expenses for investment technology in 2024. In comparison, only six of the 26 middle group companies and one of the 22 smallest groups reported any expense for investment technology.

The difference may well reflect the portfolio complexity of larger fraternal insurers. That said, it will be interesting to see if the middle and smaller fraternals increase their investment technology expenses as they diversify their assets in search of improved risk adjusted return and asset liability matching, as well as increased investment income. Higher investment income contributes to better insurance pricing for their members. It can lead to greater operating results and thereby support the fraternal society's core mission and activities.

Alternatively, it is possible that the need to upgrade technology to manage investments (and the increased reporting around those investments) could be one more factor leading to higher consolidation within the fraternal sector. One possible solution to reduce the need to increase in investment technology, and avoid technology-driven mergers, is partnering with firms that can bundle those tools with other services, such as asset management.

Rooted in the Past ... Committed to the Future

The fraternal insurance sector emerged in the second half of 19th century America. As the first quarter of the 21st century comes to a close, the data are clear. The fraternal industry is embracing technology. These companies are committing financial resources to remain a modern alternative to mutual and stock companies.

Scott Hawkins, is a Managing Director and Head of Research for Conning Insurance Research. Mr. Hawkins has over 20 years of experience in the insurance industry. Prior to joining Conning in 2006, he was Senior Research Fellow for Networks Financial Institute at Indiana State University, where he focused on developing the Institute's strategic research agenda. Before that, he spent 16 years with Skandia Insurance Group in the US and Sweden as an analyst and senior researcher. His responsibilities were advising the Group CEO about emerging strategic issues impacting financial services, as well as managing Skandia's research projects with the European Commission. He studied history at Yale, has a Certificate in Information Management Systems from Columbia University and was a board member of the J. M. Huber Institute for Learning in Organizations at Teacher's College.

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