



Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022

Submission to the Senate Standing Committee on Economics

4 March 2022

1. Introduction

The Business Council of Co-operatives and Mutuals (BCCM) thanks the Committee for the opportunity to make this submission in response to the Senate Standing Committee on Economics inquiry into the Treasury Laws Amendment (Cyclone and Flood Damage Reinsurance Pool) Bill 2022 (the Bill).

Representing businesses providing cover for cyclone damage and other property related risks, the continuance of business operations on a level playing field with other market participants is of vital importance to our industry and to domestic and business policy holders reliant on honest, accountable and competitively priced protection in relation to weather-related risk.

Northern Australia is a region prone to extreme weather events. The risks associated with living and operating small and medium businesses in northern Australia require an effective and affordable insurance and risk protection market. The BCCM welcomes the objectives of the Bill to make more affordable cover available to market participants.

The BCCM is the national peak body for co-operative and mutual enterprises in Australia across all industries.

The BCCM's membership includes insurance and risk protection mutuals that serve millions of individuals and tens of thousands of small businesses across Australia. Our members who play a role in insurance and risk protection in northern Australia include RACQ and Capricorn Mutual.

We strongly support the submission to this inquiry made by Capricorn Mutual and note the following points covered in more detail in the remainder of our submission:

- **Mutuals are risk protection businesses owned by and existing solely to deliver value to policyholders**
- **The policy objectives of this Bill and the business objectives of the mutual sector are strongly aligned in seeking to deliver access to affordable risk protection to individuals and businesses in northern Australia**
- **Failure to include mutual risk protection products in the Bill may result in unintended consequences that reduce the access to affordable risk protection in northern Australia**
- **This outcome would be counter to the bipartisan report of the 2016 Senate inquiry into co-operatives, mutuals and member-owned businesses which recommended that co-operative and mutual businesses are able to compete fairly and equitably with other business models**
- **The BCCM recommends that the Bill is amended to enable discretionary risk mutuals to participate in the Reinsurance Pool, thereby enhancing the benefits delivered to consumers by both the mutual sector and the Cyclone and Flood Damage Reinsurance Pool and securing the continuance of cover by existing providers**

2. Mutuals exist to deliver access to affordable risk protection for policyholders

Mutuals are risk protection businesses that are owned by and exist solely to deliver value to policyholders.

The model remains important for the provision of risk protection to millions of individuals and thousands of small businesses. While the role of mutuals in many insurance markets in Australia receded with a number of demutualisations in the 1990s, bipartisan policy reforms to amend the Corporations Act in 2019 to permit mutuals to access equity without demutualising is leading to growth in the sector.¹ There is a resurgence or interest in mutual risk pooling models, particularly as many insurance markets harden.

Internationally, the mutual insurance sector has grown strongly over the period since the Global Financial Crisis.²

3. The policy objectives of this Bill align strongly with the business objectives of the mutual sector

The BCCM is supportive of the policy objectives underpinning the Bill to deliver greater access and improved affordability of risk protection in northern Australia.

The BCCM notes the strong alignment between these objectives and those of the mutual insurance and risk protection sector to benefit members and the wider community.

Because they are owned and controlled by policyholders, mutuals are focused on delivering **value to policyholders**: surpluses are reinvested in better services or broader coverage or returned by way of lower premiums or rebates. Savings and efficiencies achieved by a mutual benefit the members.

- *Example: In 2021, Capricorn Mutual paid eligible members a \$6 million rebate due to strong financial performance.*

In addition, the singular focus on providing value for policyholders means mutuals have a positive impact on **market competition and diversity**: mutuals are able to operate on tighter margins than investor-owned competitors because they do not need to price in dividends to shareholders. This drives business model competition to the benefit of all consumers in a market, whether or not they become members of the mutual:

¹ Since the passage of the Treasury Laws Amendment (Mutual Reform) Act 2019 to allow mutuals to issue Mutual Capital Instruments, more than \$350 million has been raised. See [Mutual Capital Instruments \(MCIs\) - BCCM](#)

² See [Global Mutual Market Share - International Cooperative and Mutual Insurance Federation \(icmif.org\)](#)

- *Example: mutual health insurers pay back a higher percentage of premiums to members as benefits than their listed competitors. Non-members of mutuals benefit alike from this pressure on investor-owned firms to return more value to policyholders.*

The BCCM believes the mutual model and the Cyclone and Flood Damage Reinsurance Pool for northern Australia (the Reinsurance Pool) are complementary means to support improved access and affordability of risk protection for individuals and businesses in northern Australia. The BCCM supports policy settings that will enable both to flourish and deliver benefits to Australian consumers.

4. Recommendations to ensure the full participation of the mutual sector in the Reinsurance Pool

The Bill requires that authorised insurers, Lloyd's underwriters and foreign insurers must participate in the Reinsurance Pool. Certain businesses that fall within one of these categories are not required to participate, but may elect to do so.

However, by omission, the Bill in its present form excludes discretionary risk mutuals.

As a result, discretionary risk mutuals may be inadvertently displaced from northern Australian markets because they will not be able to compete on a level playing field with insurers who are able to participate in the Reinsurance Pool.

This would be of detriment to both the current and potential members of mutuals and the wider community that would benefit from the business model competition that mutuals foster in markets.

Mutuals are owned by policyholders and will efficiently pass on any savings generated by the Reinsurance Pool to them. The participation of mutuals in the Reinsurance Pool will encourage non-mutuals to do the same.

The BCCM recommends the Committee support one of the solutions proposed in Capricorn Mutual's submission.

5. Conclusion

We would be pleased to provide further information on any matters raised in this submission, including by attendance at a hearing.

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