

June 30, 2015

Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

**RE: Senate Inquiry into cooperative, mutual and member-owned firms**

This Senate Inquiry is an opportunity to raise the profile of mutuals and establish the policy settings for the growth of mutuality in Australia.

Mutuals play an indispensable role in the Australian economy:

- They drive competition in the marketplace for goods and services, providing a remedy when the market fails.
- They encourage responsible and long-term decision making instead of short term profit-driven behaviour.
- They allow risks and cost savings to be dispersed across a wide membership base, delivering better, cheaper and more appropriate solutions for their members.
- They help create employment in areas that serve the needs of the wider Australian community, particularly in regional and rural areas.
- They help ensure the financial services needs of members are retained in the domestic market instead of being lost to overseas providers.
- They thrive on a culture of trust between members who share a common outlook, interest and sense of loyalty.

Regis Mutual Management (Regis) is in a unique position to assist the Senate in its inquiry into the role, importance and performance of mutuals. Since 2007 Regis has assisted numerous organisations to establish and manage their mutuals. Our speciality is in the creation of discretionary mutuals that provide a financial service—the provision of affordable risk protection to members. Our clients are among the best and most successful discretionary mutuals in Australia and the United Kingdom.

Based on our extensive experience, we believe there are three areas of reform that government can undertake to help spread the benefits of mutuals more widely in Australia.

### **1. Changes to regulatory and capital requirements**

One of the greatest barriers to the spread of the mutual model is a lack of access to start-up and working capital. The Government can address this disadvantage by legislating for the establishment of a special class of investor deferred shares for mutuals which would be available to members and non-members to raise capital. This would bring Australia into line with the approach that has proven successful in the United Kingdom

### **2. Increased promotion of the mutual model by State and Federal Government**

When markets fail, those affected often turn to State and Federal Governments for help. Governments can play an effective role in encouraging a sector or group of people to explore the mutual model as a means of overcoming a market failure. In other words, Governments can provide advice and support to affected groups so that they can help themselves.

Government can assist by adopting policies that provide greater recognition and support to the roles of mutuals in society and the economy.

### **3. Using the mutual model as an alternative to the Government provision of insurance**

Mutuals can form the model for insurance protection currently provided by Government to be transferred to community ownership. The mutual model offers the advantages of public ownership without many of its disadvantages. A mutual model allows a service provider to focus on social outcomes instead of profits. At the same time mutuals provide all the benefits of competition in the marketplace without the creation of new government departments and infrastructure.

Yours sincerely,

Gerald Ewing  
Chief Operating Officer  
Regis Mutual Management



Submission to the Senate Standing Committees on Economics'  
Inquiry into Cooperative, Mutual and Member-owned Firms

By Regis Mutual Management Pty Ltd

June 2015



## **INTRODUCTION**

The purpose of this submission is to inform the Senate of the many benefits mutuals provide to their members, consumers and the Australian economy.

The submission recommends three actions the Government can take to encourage greater use of the mutual model so that the benefits of mutualism can be enjoyed by more Australians.

## **THE ETHOS OF MUTUALITY**

Mutuals are owned and controlled by members that have a personal stake in the organisation's success.

This makes the ethos of a mutual very different from that of for-profit organisations. Members of a mutual are bonded to each other through a common sense of purpose – a shared outlook, a shared interest and sense of loyalty.

Whereas a company is generally driven by the short-term profit interests of external shareholders, a mutual is driven by the long-term needs of its owner members.

What makes mutuals different is the values by which they operate. That's why mutuals are among the most trusted and respected organisations in Australia.

## **MUTUALS ARE PROFESSIONAL AND EFFICIENT**

Insurance mutuals are just as much businesses as traditional companies, but instead of being driven by a desire to secure profits, they are driven by a desire to provide broad tailored cover and member focused service at an efficient cost.

A well-run mutual is just as proficient and professional as any other company competing in the marketplace. The mutual model makes no compromises in terms of commercial acumen, financial controls and efficient management. This high standard of management is what makes mutuals a true alternative to mainstream financial services firms.

The member owned model intrinsically provides for good governance because the Board's only duty is to serve member interests rather than the stock market. Unimutual (see below) has a Board of 12 Directors, one third of whom are Independent, as is the Chair. This is the best practice model currently being advocated for superannuation firms by the Government. Unimutual has had this structure in place for the past 5 years.

## **WHY CREATE A MUTUAL?**

The most common reasons for establishing a mutual include:

- The members' needs are insufficiently catered for by the insurance market, whether it be availability, cover or price.



- There is a 'mutual glue' or trust that brings the members together. Members can be aligned through their risk exposure, participation in a specific sector, such as higher education and the armed forces, or represent a group of consumers facing a common difficulty accessing insurance, such as newsagents.
- There is sufficient scale to make the mutual efficient. Without this, the mutual cannot achieve the members' objectives economically. By pooling the risk and buying power of the group, the mutual delivers economies of scale to its members.

Where these factors exist or can be facilitated, a mutual will be an effective and successful enterprise for its members. A discretionary mutual is generally the preferred model because of the lower capital commitment that is required, although limited access to funding still makes this challenging.

## THE ECONOMIC BENEFITS OF MUTUALS

The economic benefit of mutuals include:

- **Cost effectiveness** – Mutuals deliver better value, broader and more appropriate insurance protection for members as well as a reduction in overhead costs.
- **Increased Competition** – Mutuals drive competition and diversity into the market. This is particularly important in the financial services sector.
- **Supporting Australian Financial Services Sector** - Insurance or reinsurance business that might otherwise be ceded to foreign markets can be retained within the domestic market.
- **Creating Jobs** - The use of mutual structures has the potential to create greater domestic employment in areas which benefit the community.

## CASE STUDIES IN SUCCESS – UNIMUTUAL, ACTIVITIES INDUSTRY MUTUAL and MILITARY MUTUAL

### Unimutual

An example of the effectiveness of the model is Unimutual, a discretionary mutual that is celebrating 25 years of providing risk protection to its members in the higher education sector.

Unimutual was established in 1989 to provide an alternative to commercial insurance for Australian universities against a variety of risks, many of which are specific to the sector. Unimutual is the market leader for asset and liability risk protection for this group and sets the benchmark pricing which others try to beat.

Unlike commercial insurance companies, Unimutual:

- is owned and controlled by its members for the sole benefit and interests of the membership
- is not required to make profits for shareholders, instead focusing on providing value to its members



- works only with the higher education sector and associated entities
- empathises with university values and fully understands the unique risks that affect the sector.

The catalyst for the establishment of Unimutual was a market failure – in this instance the inability of the conventional insurance market to provide affordable liability cover for Australian universities. The cover was quickly expanded to cover property assets and the membership was expanded to include, higher education, research and associated entities. Assets protected now exceed \$60 billion.

Unimutual operates by pooling the risk amongst its members and efficiently transferring high value and accumulation risk to the insurance and reinsurance markets. It provides broad cover including tailored cover for research, including medical malpractice and clinical trials, and is the leading risk carrier for the higher education sector. Unimutual is managed by a small dedicated team with significant experience in education risk management.

### **Activities Industry Mutual**

Another example of how the mutual model helps a very different group of people is the Activities Industries Mutual (AIM) in the UK.

AIM was borne of a market failure when the liability cover needs of adventure activity and outdoor education providers could not be met by the commercial market.

Established for more than 10 years, AIM is a “hybrid” mutual which means that the cover is in two parts. The first part of each risk is retained by the Mutual and pooled amongst members under a discretionary model. Above the level of mutual retention, AIM has in place an insurance policy for all members up to the total limit of cover required. This structure enables the mutual to provide insurance certificates to members which comply with statutory regulations where required such as employers liability. The mutual manages all claims for members including those under the insurance policy.

One of the notable successes of AIM has been the ability to share experience and risk management to improve the risk profile of the industry, thereby reducing frequency and severity of claims and improving safety for all participants.

At the same time, the mutual has been able to adopt a unified approach to the management and defence of unmeritorious claims against members, thereby further strengthening the industry.

### **Military Mutual**

A more recent example of mutuality is The Military Mutual in the UK. This mutual launched earlier this year to provide protection to military personnel who, as a result of their roles in protecting their nation, have found access to insurance difficult.

The challenges of life in the military are unique, with overseas postings, regular moves from base to base and responsibility for increasingly sophisticated and expensive kit making the purchase of ‘off the shelf’ insurance products far from straight forward.



The Military Mutual provides protection to this large group with products and services that are designed specifically for the military family, as well as providing cost effective cover for the homes, contents and motor vehicles of serving and veteran personnel and their immediate families.

## **WHAT GOVERNMENT CAN DO TO HELP MUTUALS?**

### **1. Implement changes to regulatory and capital requirements**

One of the challenges faced by groups wishing to come together under the mutual model is access to start-up funding and/or working capital.

Starting and running a mutual is no small undertaking and requires all the disciplines that would be found in a conventional insurance company, with appropriately skilled staff and infrastructure.

External or institutional investors cannot invest in a mutual as they have no share capital. So mutuals must rely on the members' funds built up over time through retained earnings. This places mutuals at a disadvantage to stock market listed competitors which have access to investor share capital.

Access to funding is a significant barrier to the creation and establishment of new mutuals and is a holding back the delivery of increased diversity and consumer choice.

The UK has recently addressed this problem through legislation. The Mutual Deferred Shares Act promises to transform the financial services sector by allowing mutuals to issue shares, giving them access to an external source of capital without losing their mutual status. There are clear benefits from this approach as capital can be raised to fund growth providing flexibility for mutuals to develop faster.

Many of the demutualisations on the 1980s and 1990s took place in response to a need to access external capital. The establishment of a special class of investor share for mutuals adds a significant safeguard against demutualisation.

If the Government wishes to encourage the use of mutuals in Australia, then it should legislate a similar provision into Australian law.

### **2. Greater recognition and increased promotion of the mutual model by State and Federal Government**

Governments can play an effective role in encouraging the use of the mutual model as a means of overcoming market failures. Government can do this by formally recognising and supporting the mutual model beginning with the adoption of a specific mutual policy agenda. We draw the Senate's attention to the Mutual Manifesto<sup>1</sup>, produced for the UK Government in 2010 by Mutuo, the peak body for financial mutuals in the UK.

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<sup>1</sup> <http://www.mutuo.co.uk/wp-content/uploads/2015/03/UK-Mutuals-manifest-15.pdf>  
<http://www.mutuo.co.uk/wp-content/shared/mutuals-manifesto-final-print.pdf>



By using the mutual model, diverse groups within society can gain access to a wider range of insurers and reinsurers with differing appetites and products, many of which are not available to individuals, single businesses or organisations.

When a group has concluded that the current offerings in the market are unsuitable, they will often turn to the government for a remedy. Governments should provide the advice and support required for the disenfranchised group to explore the mutual model as a solution.

### **3. Using the mutual model as an alternative to the Government provision of insurance**

The traditional insurance market in Australia is dominated by for-profit entities, many of which are listed on the stock market in Australia or overseas. Their focus is on short term profitability and shareholder returns so their risk appetite and pricing policies often fluctuate sharply.

When this happens, a particular group of risks, or whole product lines, will be affected with the resulting changes causing serious problems for Australian businesses, not-for-profit organisations and individuals.

A recent example is the “builders’ warranty” in NSW, Victoria, SA and WA. Insurers have withdrawn from providing private insurance forcing the states themselves to provide continuity of protection for consumers.

Also, in Northern Australia, sharp increases in property insurance premiums have caused significant distress to local consumers. This has prompted the establishment of a Government Taskforce to consider solutions to improve affordability in cyclone prone areas. Rather than the State or Federal Government taking over the administration of these types of risks directly, the use of a mutual model may be a better solution.

Advantages of the model include:

- Community ownership without full Government ownership
- A degree of risk sharing among members providing a form of self-help
- The ability to take a long term view
- Communication and transparency on the risk and its costs
- A vehicle for education and mitigation which can reduce risk
- Reducing government support as surpluses grow over time
- An ability for the risk to transfer back to the commercial insurance market as experience improves/is better understood.





## **CONCLUSION**

This Senate Inquiry has the opportunity to inject new momentum into the mutual sector.

The starting points are to address the capital requirements of mutuals by promoting a legislative change similar to that in the UK and adopting a policy that provides greater recognition and support to the roles of mutuals in society and the economy.

The Government has an important role in encouraging groups within our society to look to the mutual model as a solution when they experience a market failure. This will require a greater appreciation and understanding of mutuality within all levels of government.

Mutuals can also be a model for the insurance protection currently provided by government to be transferred to community ownership.

The mutual model drive efficiencies, competition and diversity into the Australian marketplace.

Further support and encouragement for the mutual model will benefit the economy and the Australian community.

## **ABOUT REGIS**

Regis was established in 2007 to provide a complete professional outsourced management solution to the members of protection mutuals, or those wanting to establish a mutual. The company operates in both Australia and the United Kingdom.

Regis' provides a range of mutual services from the creation and establishment of mutuals through to the complete outsourcing of the management.

Regis applies financial discipline and governance to the management of a mutual so it can operate efficiently and in the sole interests of its members.

The ethos of mutuality has never been more relevant than it is today and this is good news for anyone that wants to see greater diversity and true choice in the financial services sector.

Passionate about mutuals and mutuality, Regis's relationship with its portfolio of mutual customers gives the company a unique insight into the benefits and challenges of discretionary protection mutuals both in Australia and internationally.

Regis' portfolio of mutual clients are shown below:

## Australia



### Unimutual

Unimutual is now the leading provider of asset and liability risk protection to the University and higher education and research sector including general third party liability, professional liability and medical practice and clinical trials. Assets protected by Unimutual exceed a value of \$60 billion.



### John Holland Group Mutual (JHGM)

The innovative protection provided by the mutual enables JHG to provide cost effective injury and sickness salary continuance and related benefits to its employees together with enhancement of workers compensation benefits.



### ACS Mutual Limited

ACS is an affinity group discretionary mutual launched in April 2013 to provide asset and public liability protection for Christian Churches and affiliated entities in Australia.

## United Kingdom



### The Military Mutual

The Military Mutual has been formed to support The Military Covenant by offering cover for the whole of the Military Family, Army, Navy and Airforce, serving, veterans and immediate family; taking into account the unique circumstances of serving military personnel by providing specialist covers as well as personal lines including, home and contents, motor, etc.,.



### NFRN Mutual

The NFRN Mutual was established in 1999 to provide a fairer alternative to conventional insurance for newsagents. This mutual has recently embarked upon an expansion which allow small high street retailers to become members.



### Activities Industry Mutual (AIM)

Activities Industry Mutual was formed to provide liability cover at a fair price and to offer long term stability, so that charitable trusts, small businesses and sole practitioners across the sector could get on with delivering great outdoor experiences.



## The Livery Companies' Mutual

The Livery Companies' Mutual covers the historic buildings and treasures of these unique City of London institutions, and other similar risks, using the discretionary Mutual model.



**The Masonic Mutual Limited**

## Masonic Mutual

The Masonic Mutual has been set up to help provide tailor-made coverage solutions for Masonic buildings, contents (including regalia) and commercial and liability exposures.



## Mutual for Fire & Rescue Authorities

The build phase for the new mutual has already commenced with a target launch date of the early November 2015