



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

By Unimutual

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## INTRODUCTION

This submission demonstrates how a discretionary mutual model can assist an industry sector, such as higher education, overcome an inability of obtaining commercial insurance at an affordable price.

Unimutual is the clear market leader for asset and risk protection to Universities and associated entities in the Higher Education and Research sector. Unimutual now provides the benchmark pricing against which conventional insurance companies compete for University business.

While Unimutual's members are Universities and associated entities, there is no reason why the insurance mutual model cannot be adopted successfully by other industries such as schools, aged-care, childcare, the Technical and Further Education (TAFE) system or other state and government sector services.

As the success of Unimutual demonstrates, the mutual model can be used to deliver cost savings, efficiencies and resilience that will ultimately lead to more resources being available for provision of core services at the front-line higher education and research.

## ABOUT UNIMUTUAL

Unimutual is a member-owned and member-driven provider of asset and liability protection to universities and educational and research institutions. It is a discretionary mutual that has been created to use the collective strength of its members which are all in the higher education sector.

Unimutual has 52 members comprising 27 universities and 25 associated entities such as research institutes, residential colleges and conservatoria of music. Unimutual is now the leading risk carrier for the higher education sector and is managed by a small dedicated team with significant experience in education risk management.

Unimutual acts as an alternative to commercial insurance for the protection of Australian universities, higher education providers and associated entities against a variety of risks, many of which are specific to the sector.

Unimutual operates by pooling a layer of risk amongst its members and efficiently transferring high value and accumulation risk to the insurance and reinsurance markets.

Unimutual is regulated by the Australian Securities and Investments Commission (ASIC) as a financial services provider of miscellaneous mutual risk products and holds an Australian Financial Services Licence.



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, but rather focuses on providing value to 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
- Educates members about emerging risks and risk management
- Provides practical loss prevention, management and mitigation support and advice.

### **UNIMUTUAL'S HERITAGE**

Unimutual was born out of a market failure at the end of the financially turbulent 1980s. Commercial insurers had abandoned cover they could not economically provide, leaving Australia's universities with their own unique set of risks lacking adequate or affordable liability insurance cover.

The leading Group of Eight Universities, led by the Universities of Queensland, Western Australia, Melbourne and Sydney, came together in 1989 to establish Unimutual to initially address the need for liability cover that the conventional insurance market was unable to satisfy and that Australian universities needed.

Unimutual provided cover for not only general liability and professional indemnity but also medical malpractice and clinical trials. Cover today extends to include research material and specimens. Assets protected by Unimutual exceed \$60 billion. Liability protection is provided by Unimutual for cover limits up to \$200 million.

Twenty five years on, Unimutual continues to provide a combination of comprehensive cover, value added advice and deep education sector knowledge.

Owned and controlled by members for the sole benefit and interest of the membership, Unimutual delivers strategic and economic value to the higher education sector by supporting teaching and research through competitive pricing and unrivalled breadth of cover for essential property and liability protection.

### **BENEFITS OF THE MUTUAL MODEL**

Unimutual is a discretionary mutual. This means it has discretion over whom to admit as a member and over the payment of claims. The discretion is exercised by the Board of Directors who are principally elected from the membership.



As the Board of Directors has discretion, Unimutual has greater flexibility in claim approvals and the ability to consider losses that fall outside the scope of the cover.

In the last 25 years, Unimutual has paid in excess of \$200 million to members and has never refused a valid claim.

## **THE PROTECTION WE PROVIDE**

Because the entitlements are discretionary, the cover provided by Unimutual is not insurance and instead is referred to as 'protection'. Rather than a policy document, members receive a 'Protection Wording' that sets out the scope of the discretionary cover.

Unimutual provides the following discretionary protections to its members:

- Property and business interruption protection
- General and products liability protection
- Professional liability protection
- Malpractice protection (medical and veterinary)
- Clinical trials protection
- Cyber protection
- Management liability insurance (arranged by Unimutual for members).

## **ECONOMIC BENEFITS**

The economic benefits to the sector whilst real and substantial, are difficult to quantify exactly. They include the direct savings on the costs of comparable insurance cover. The mutual also provides valuable risk management services and education that increase the resilience of the membership through greater risk awareness, loss prevention and mitigation. In addition, the mutual has been able to provide post-loss funding to members to ensure important infrastructure for the provision of teaching, learning and research is able to be promptly re-established.

Mutuals are inherently resilient as evidenced during the recent global financial crisis. Closer to home, Unimutual was able to weather the collapse of HIH and Independent Insurance Company, both of whom owed substantial claims amounts to the mutual. Using its own reserves, Unimutual was able to ensure that all claims were paid in full and no member was adversely affected by the collapse of these two regulated insurers.

### **Cost Savings**

Unimutual consistently offers the best value in the market because of its unique structural efficiencies and not-for-profit model.



An independent study carried out by a leading reinsurance broker found Unimutual's model and its efficiencies produced a 12 per cent saving over the cost of a conventional insurance product. Over its 25 years of existence we estimate that Unimutual has produced direct costs savings in excess of \$200m in real terms.

Unimutual provides the benchmark pricing against which conventional insurance companies compete for University business. Because Unimutual is owned by its members it does not need to generate profits for third party shareholders.

### **Lower Capital Requirements**

As a discretionary mutual, Unimutual pools its members' risks within clearly defined parameters and within its capacity to retain risk.

The pooling arrangement seeks to self-insure amongst the members all the expected losses (the attritional or working losses) and to use the purchasing power of the group to buy insurance or reinsurance for the high level and accumulation risks. The retention of risk in this manner requires significantly less capital than conventional insurance providers.

### **Lower Administration costs**

Unimutual's administrative expenses are consistently less than 15 per cent of income. Because it is focused on the risks and needs of a particular sector, Unimutual is able to operate a tailored and efficient structure which results in operating costs significantly below those of the conventional insurance market.

### **Lower loss costs**

Mutuals have a strong focus on risk loss prevention and mitigation. This is partly because through the mutual, members have "skin in the game" via the pooling arrangement. Improving the risk profile of individual members provides visible benefit through reduced claims and contributions. Improving the overall risk profile of the group also benefits the insurance and reinsurance arrangements of the mutual.

A recent example within Unimutual relates to temperature-controlled environments (TCE). Typically these are minus 80C freezers in which valuable research material and specimens are stored, often over many years through the life of a research project. A unique protection offered by Unimutual is a commitment to pay the cost of recreating this research in the event that it is lost. Claims can easily run into millions of dollars.

With its unique data bank drawn from its 27 University members, Unimutual is able to determine trends in both loss experience and declared values. When it became apparent that these trends were departing from expected norms Unimutual was immediately able to undertake loss prevention through a combination of education and action to influence behaviour and outcomes. This included arranging member TCE audits, providing practical risk management advice and initiatives and establishing incentives which enabled member



institutions to obtain budget allocations for necessary expenditure on alarms and back-up systems.

The Unimutual TCE program has been a major risk management project over the past three years which has already seen the incidence and value of claims reduced by more than 50 per cent.

Projects like these not only provide direct monetary savings, but improve members' resilience whilst also protecting their reputation.

## **WHY HIGHER EDUCATION PROVIDERS JOIN UNIMUTUAL**

Unimutual provides a number of benefits that its members value and which are not matched by traditional insurance firms:

### **1. Comprehensive coverage**

Unimutual offers the most comprehensive cover for the sector including risks no other company will cover, such as for research material. The challenge faced by universities is that they have a wide range of potential risks to manage. Given its mutual structure, Unimutual is able to adapt quickly to tailor cover specifically to meet changing needs and emerging risks. The Unimutual cover is reviewed and improved every year.

### **2. Discretionary protection**

All claims are dealt with by the discretion of the Board. Members can expect the Board to consider and accept claims falling within the protection wording. However members can also request that claims falling outside the protection (as distinct from those expressly excluded) should be reviewed by their peers on the Board and considered for discretionary protection.

There are many examples of how this discretion is exercised in practice. One example is the equine flu outbreak that struck Australia some years ago and resulted in quarantine rules that severely restricted the movement of horses within the country. A number of Unimutual University members operate veterinary schools with equine operations. As a result of quarantine restrictions many members suffered substantial losses of income from their veterinary centres. Many commercial operators were similarly affected.

Loss of income is normally covered under the business interruption section of commercial insurance property policies and requires a trigger of physical loss or damage or quarantine from human infectious disease. As neither of these triggers had occurred, no commercial policies responded. Whilst the Unimutual cover was no different, the Board's power of discretion meant that Unimutual paid all the loss of income claims for its members.

### **3. Claim service**

Unimutual has a small bespoke membership which is serviced by dedicated personnel with University sector experience enabling it to manage claims proactively and quickly. For example, in the event of major loss Unimutual staff will normally attend on site within 12 hours to assist and guide the member. Its settlement process is transparent and strives to ensure a clear and fair resolution of all claims.

### **4. Collaboration and risk management**

Unimutual actively promotes loss prevention and mitigation by advising individual members on risk as well as collaboratively sharing insights and lessons across the entire member base. Unimutual's in-house risk managers consult widely with members, co-ordinate and lead a number of special interest groups and produce practical advice publications. Unimutual regularly publishes emerging risk reports highlighting various high-risk situations to help members minimise their exposure. For example, emerging risk reports have been provided on:

- Cyber risk
- Bushfire and storms
- University museum thefts
- Campus threat assessments
- The safety and welfare of off-campus overseas students

An important element of fostering collaboration amongst members is the education that Unimutual provides. This is highlighted at the annual member conference, attendance at which is at no additional cost but included as a benefit of membership.

### **5. Strong, experienced, committed team**

Each of Unimutual's managers has personal relationships with their clients, conducts regular site visits and has extensive knowledge of each members' individual requirements, potential risks and priorities. There is no Unimutual call centre – just a personal relationship and bespoke service with people who know the members' businesses well.

### **6. Reliability**

Conventional insurers often under-price their products to gain market share or through a lack of understanding of the activity they are insuring. However such pricing is unsustainable and the insured entity will ultimately be exposed to increased volatility of cost. An entity remaining with Unimutual over the long term will benefit from our reliability, dependability as well as our cost efficiency.

**Comparison between Unimutual and commercial insurers**

|  | Unimutual | Non-mutual insurer |
|--|-----------|--------------------|
| <b>General</b>   |           |                    |
| Owned and Controlled by members  | ✓         | x                  |
| Not for profit principles  | ✓         | x                  |
| Sector specific risk profile   | ✓         | x                  |
|  |           |                    |
| <b>Financial</b>   |           |                    |
| 'Close to cost' pricing  | ✓         | x                  |
| Shareholder profit driven  | x         | ✓                  |
|  |           |                    |
| High capital requirements  | x         | ✓                  |
| Rewards group-buying power   | ✓         | x                  |
| Low operating expense  | ✓         | x                  |
| Supplementary call provision   | ✓         | x                  |
|  |           |                    |
| <b>Cover</b>   |           |                    |
| Tailored sector cover  | ✓         | x                  |
| Broadest cover   | ✓         | x                  |
| Highest limits   | ✓         | x                  |
| Discretionary advantage  | ✓         | x                  |
| Counter party risk spread  | ✓         | x                  |
|  |           |                    |
| <b>Service</b>   |           |                    |
| Member focussed  | ✓         | x                  |
| Experienced, dedicated university service team                                     | ✓         | x                  |
| Regular member visits  | ✓         | x                  |
| Complimentary Risk management and loss prevention advice, newsletters and articles | ✓         | x                  |
| Special interest groups and annual conference                                      | ✓         | x                  |

**GOVERNANCE**

Unimutual has a strong corporate governance culture and process led by the Board. Members control the Unimutual Board through a constitutionally-preserved majority of directors elected from the membership. For some time, Unimutual has filled a third of its Board positions with independent directors, with an independent occupying the chair position. This is in keeping with the proposed reforms now announced by the federal government for the superannuation industry.

Governance in mutuals is strong because their primary focus is to serve their members. Arguably the governance in a mutual is stronger than a shareholder-owned company because directors only have to consider the interest of member owners who are also the





mutuals' customers. Freed of the inherent conflict between what is good for the customer and what is good for the shareholder, mutuals have a much clearer mission focus and can pursue long term strategies.

Mutuals are also inherently less prone to risky actions. This is driven by a number of factors. First and foremost, mutuals are not driven by the profit motives of either shareholders or individuals. Secondly, as custodians of members' funds which include their own institutions, the majority of the directors, have a keen interest in ensuring the mutual is well run. Thirdly, the mutual operates with a high level of transparency so that members can judge the actions of their peers on the Board.

The Unimutual Board meets quarterly and members are encouraged to engage with directors between meetings. The Board is supported by three committees – Finance and Audit, Governance and Compliance, and Claims. Sub-committees have been formed to deal with investment policy, Board evaluation and independent director recruitment.

All members are provided with the annual accounts and invited to the AGM and other events.

## **CONCLUSION**

Given the many benefits Unimutual offers to its members, we believe the mutual model can be used as a blue print for other industries, particularly those that are in state or government ownership or are state or government-insured.

For example the government schools and/or TAFE system could be organised as mutuals to provide protection for their risks, creating efficiencies that free up resources for front-line education and training.

There are also a large number of private sector activities that could benefit from the mutual model, such as aged care or child care.

A positive outcome of this Senate Inquiry would be a greater appreciation of the Unimutual success story by the Parliament and moves to encourage a greater number of industry sectors to explore the benefits of the member-owned mutual model as an alternative to traditional insurance.

Martin Griffith  
Chairman