
Presentation to



19th of September 2019

Presented by Paul Koronka

Regis

“How to build a mutual insurance company:
Current business challenges”

**Insurance.
Redesigned.**

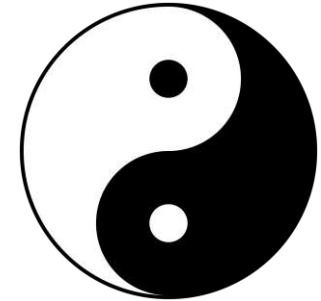
Agenda

- ➔ Mutual Benefits
- ➔ What does a good mutual look like
- ➔ Data
- ➔ Insurance market
- ➔ Structures
- ➔ Regulation
- ➔ Examples
- ➔ About Regis – (very brief)

Mutual benefits recap

Alignment of interests / misalignment of interests

- ➔ A mutual is directed and controlled by its members
- ➔ Its sole focus is meeting member needs
- ➔ Putting more power in the hands of the consumer



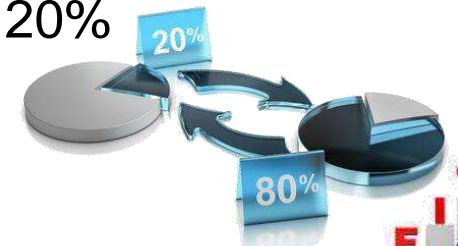
Efficiency

- ➔ Instead of members going into the insurance market one by one
- ➔ They come together to harness their collective strength



Risk selection / risk management

- ➔ The Pareto principle - if 80% of claims come from 20%
- ➔ How can that 20% be identified and ring fenced?



Profit objective / surplus generation

- ➔ A mutual typically does not have a profit objective
- ➔ Therefore having no need to build excessive profit into its pricing



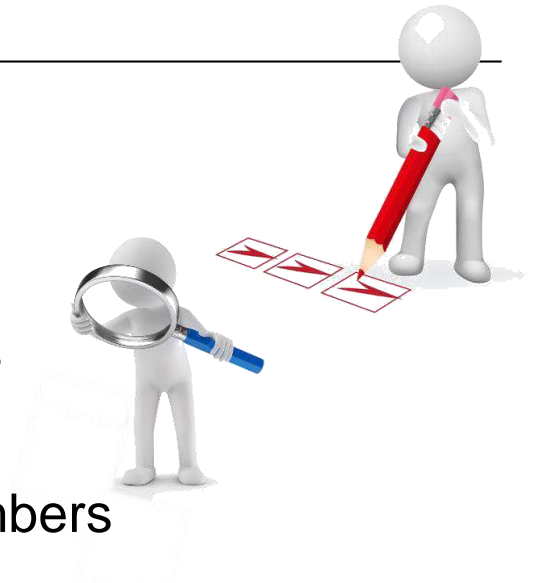
Flexibility that can deal with both insurable and uninsurable events

Responsive

- ⇒ Members needs are continuously evolving

Scope of cover

- ⇒ Starting point is current coverage – but it evolves
- ⇒ What do members need covered?
- ⇒ A mutual provides cover that needed by the members

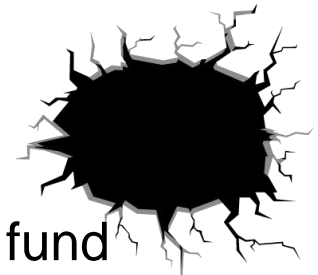


Insurable

- ⇒ Insurer risk appetite and pricing fluctuates

Uninsurable

- ⇒ Insurance policies contain a multitude of exclusions
- ⇒ Members can cover any risk – which they are prepared to fund
- ⇒ The mutual can also provide novel solutions and mitigation strategies



What does a good mutual look like?

Critical mass

- The number of members needed to attain sufficient leverage to secure the targeted objectives



Glue – a shared values which connect the members

- What binds the members together?
- How strong is the bond between the potential members?



Selective

- Able to separate the 80% of “Good” operators from the other 20%

Motivated

- Disillusionment with current insurance offerings
- Unavailability of the required scope of cover
- Unaffordability of cover
- Service failure



What are essential characteristics to look for in any potential group

Glue – a shared goal which connects the members

- A shared problem - or a shared agreement to achieve a better outcome
- A willingness to work collaboratively
- Motivated to make a strategic decision for change



Scale

- Sufficient premium spend
- Sufficient breadth of support from the potential membership base

Funding / access to funding

- The mutual will require seed funding;
 - To cover the investigation and validation process
 - To cover any operational shortfall until the mutual becomes financially self sufficient
 - Prudential capital if fully authorised



Pitfalls to avoid



Balance

- The mutual needs to achieve a balance between;
 - Risk retained ➤ The needs of members
 - Risk transferred ➤ The needs of the membership



Insurance market reaction

- Incumbent insurers will react to the appearance of a mutual
- Previously unseen discounts and flexibility can materialise



Member commitment

- The creation of a mutual is a strategic decision – not a transactional one
- Members must be mindful of the long term objective and not waiver in their commitment



Risk appetite

- The mutual should only retain the level of risk it is able to fund

Data

Good data underpins good decision making

- ➔ Historic premiums
- ➔ Historic claims
- ➔ Risk information
- ➔ Understanding member needs
- ➔ Understanding insurance failures / shortfalls



Data analysis

- ➔ This data is used to undertake detailed modelling;
 - ➔ Financial forecasting
 - ➔ Viability of the mutual
 - ➔ Identification of the tipping point between;
 - ➔ Risk retained
 - ➔ Risk transferred
 - ➔ Build and deployment of the mutual



Operational

- ➔ The mutual captures and generates a lot of data
- ➔ The mutual puts this data where it can do the most good, members hands
 - ➔ Claims trends analysis
 - ➔ Route cause analysis
 - ➔ Anonymised benchmarking

Relationship with insurance market



Risk retained / Risk Transferred

- A mutual will typically aim to retain all of the “expected claims”
- The mutual will transfer the “unexpected” claims to insurers

Transition from insurance “Customer” to “Insurance Partner”

- As a individual insurance customer, negotiating leverage across;

- Premiums
- Scope of cover
- Service standards

is very limited



- However as part of the larger purchasing collective in a mutual, combined with risk retention, this relationship can be transformed

The mutual works in Partnership with its chosen insurance partner(s)

- Insurance works as a safety net
- Protecting the mutual from unexpected claims

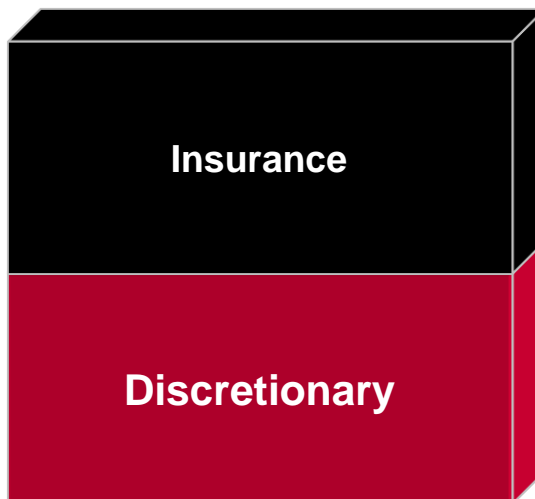


Mutual structures

Fully Discretionary



Hybrid



Insurance Mutual



- ➔ Fully discretionary – all cover provided to members is on a discretionary basis (the mutual purchasing excess and aggregate insurance in its own name)
- ➔ Hybrid – the excess layer insurance is in the name of the members (aggregate insurance remains in the name of the mutual)
- ➔ Fully authorised and regulated – same as insurance – requires significant capitalisation
- ➔ Group company option, as an alternative to a captive

Corporate structures and Domicile

Legal structures

- ➔ Company Limited by Guarantee
- ➔ Company Limited By Shares
- ➔ Partnership
- ➔ Unincorporated Association



Domicile

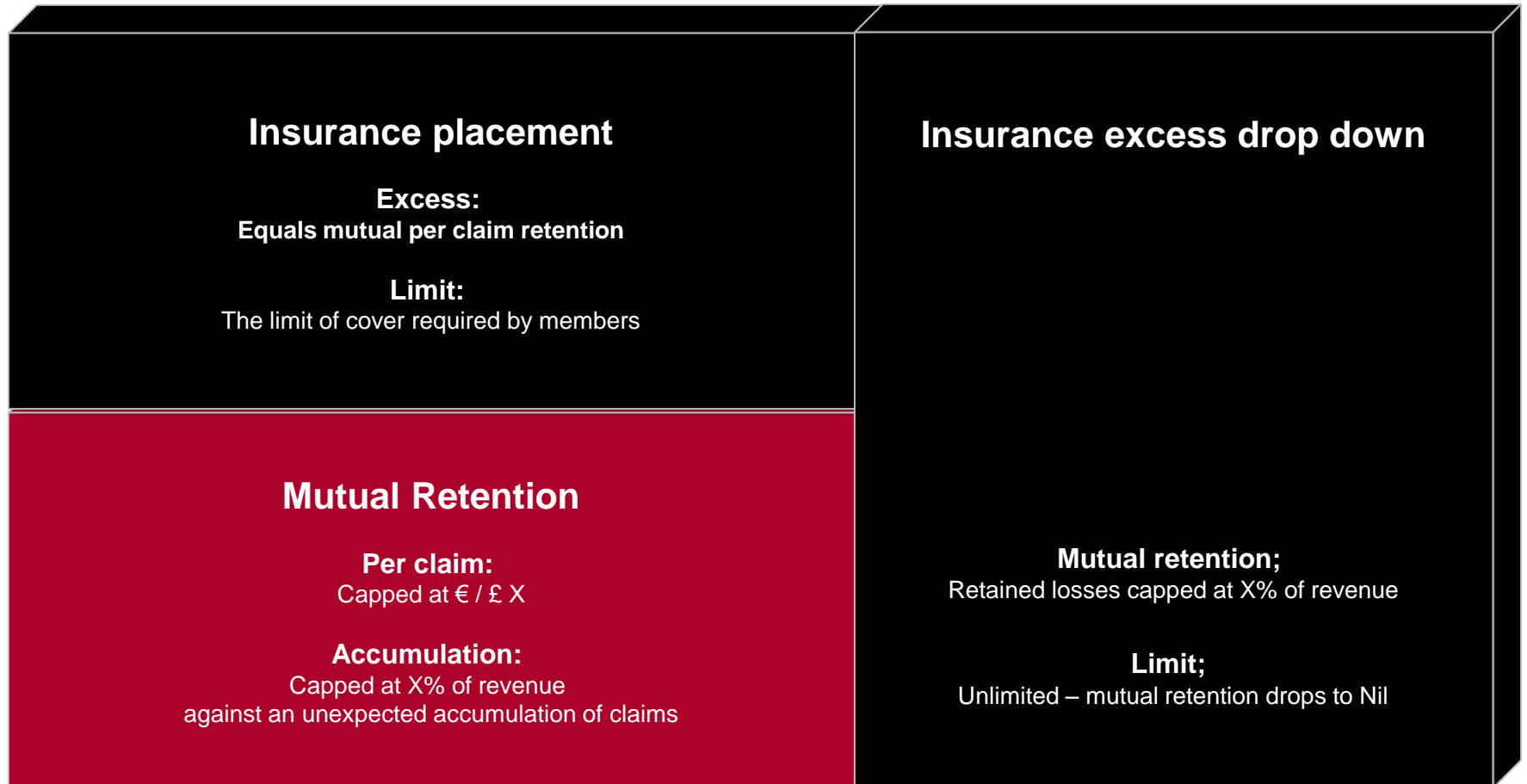
- ➔ Historically Discretionary Mutuals have been domiciled in common law countries, including;
 - ➔ United Kingdom
 - ➔ Ireland
 - ➔ South Africa
 - ➔ Australia
 - ➔ New Zealand
- ➔ Domicile of a Discretionary Mutual in other countries would be subject to exploration of that countries regulations
- ➔ Alternatively offshore in one of these jurisdictions could be explored

Takaful

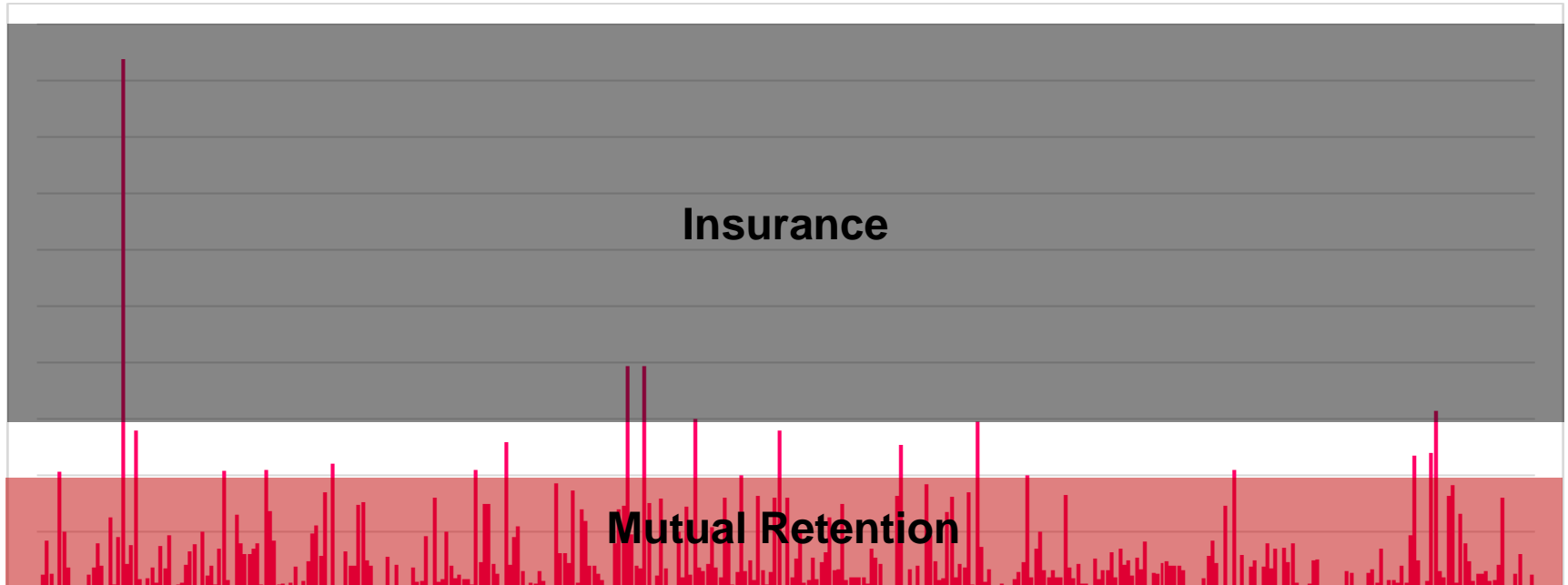
- ➔ The mutual model requires only minor adjustments to make it Takaful compliant

Financial structures

➔ Efficiency without undue risk



Mutual retention

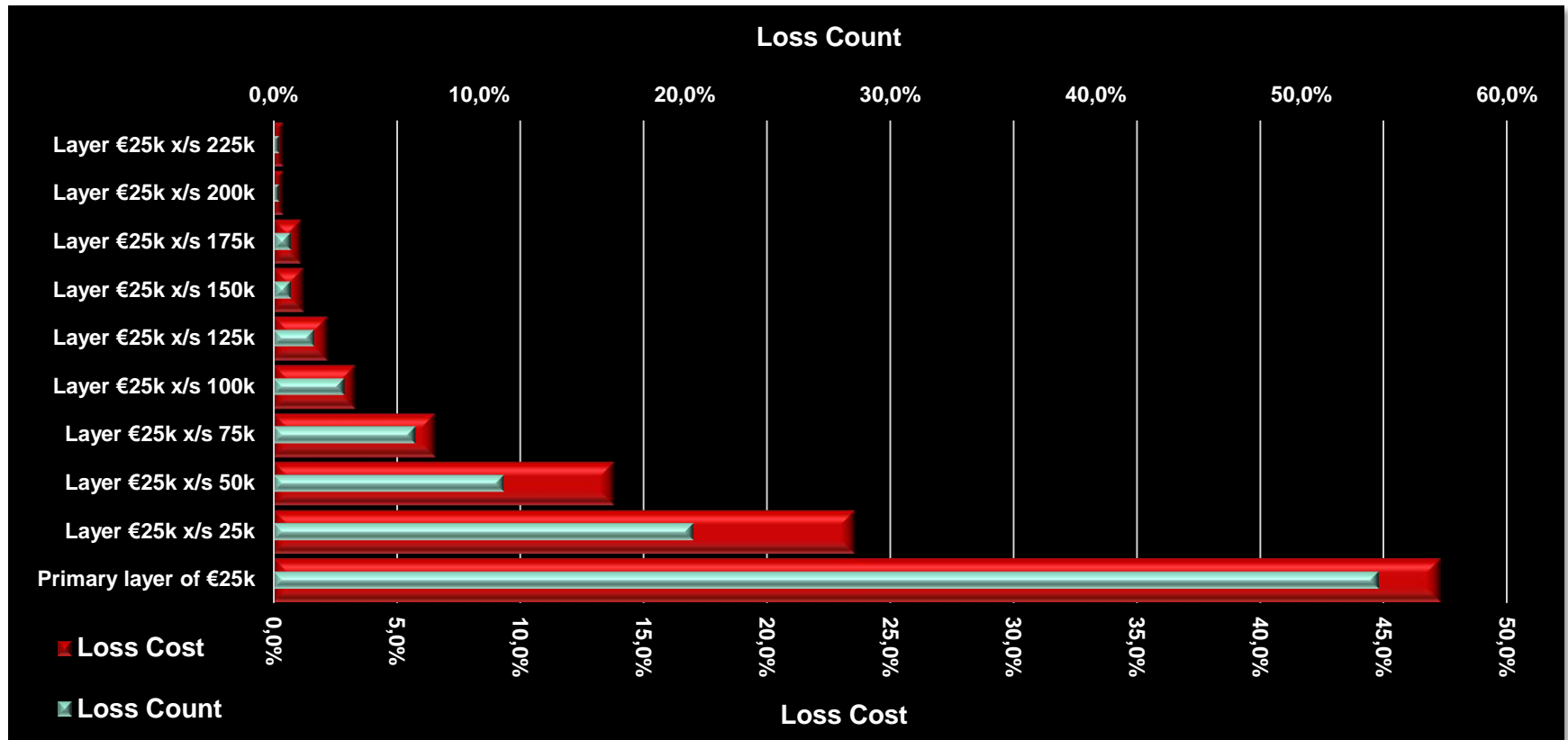


Claims Activity

- The mutual is able to retain more risk collectively than would be economic individually
- The simple act of risk retention can transform risk management

Mutual Retention

- Typically, the most expensive part of any placement is the primary layer
- This contains the vast majority of the loss activity and loss cost



Taxation

Discretionary Protection

- With Discretionary Protection is typically not classified as “insurance”
 - Contributions are therefore typically not subject to the application of insurance taxes
 - In the same way that the funding of self-insured retentions isn’t

Surplus

- The doctrine of mutuality, based on common law principles, means that surpluses generated within a mutual are typically not subject to the application of corporate tax
- A mutuals primary tax exposure is limited to its investment income



Regulation

Discretionary Mutuals

generally enjoy lighter touch regulation than fully authorised and regulated insurers. E.g. UK none and Australia some

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Capitalisation

- A discretionary mutual has a Solvency requirement, not a capitalisation requirement.
- The mutual will typically meet this from operational revenues
- Which can be supplemented with prior years reserves

Fully Authorised Mutual

- Heavily regulated under local or EEC Solvency II
- Heavy capital requirement
- High regulatory burden & Cost



Some examples



&

The Livery Companies' Mutual



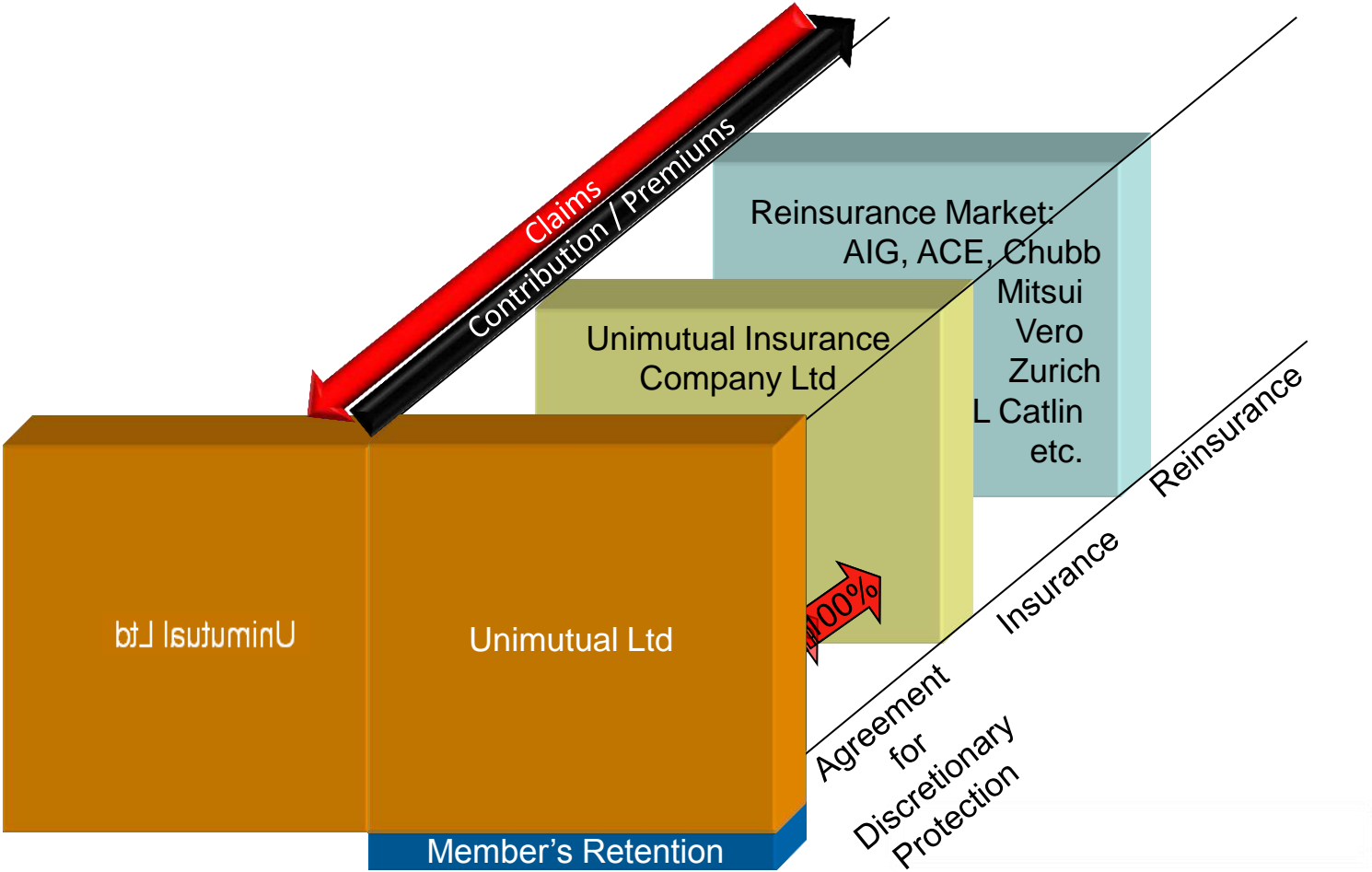
unimutual

Unimutual - Australia

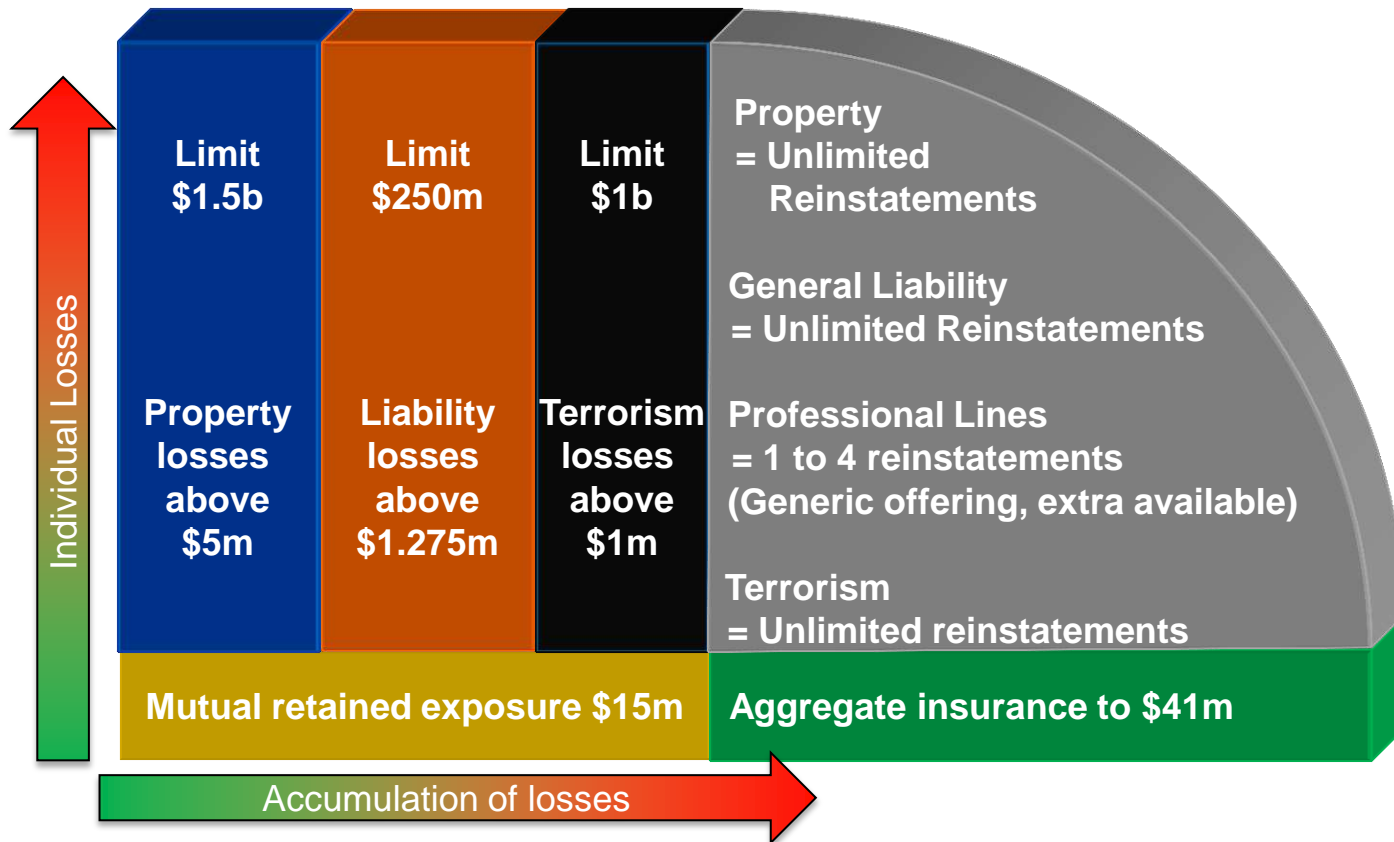


- ⇒ 54 members including 28 Universities
- ⇒ Fully Discretionary with IoM Captive to access RI Markets
- ⇒ Total property values under protection exceed \$60bn
- ⇒ Property limits to \$1.5bn per member
- ⇒ Casualty limits to \$250m each and every claim
- ⇒ Annual contribution income >\$40m
- ⇒ 26 year history - over 7,000 claims exceeding \$350m
- ⇒ Largest provider to the Australian higher education sector
- ⇒ Leading risk management provider to higher education sector
- ⇒ Knowledge sharing with members through national and regional forums and annual member conference
- ⇒ Online renewal data collection tool
- ⇒ Online tracking of risk recommendations

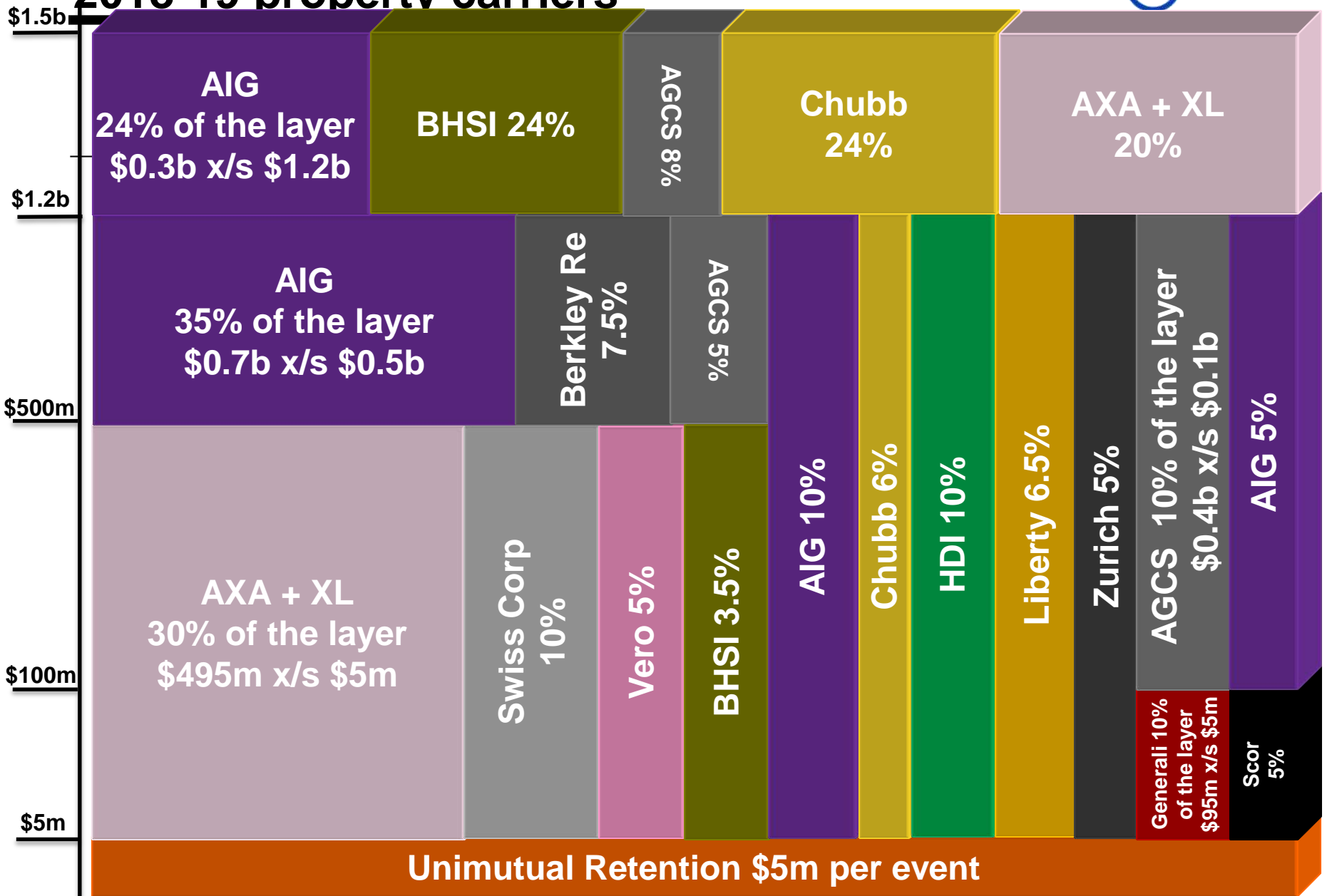
Risk Transfer Flow



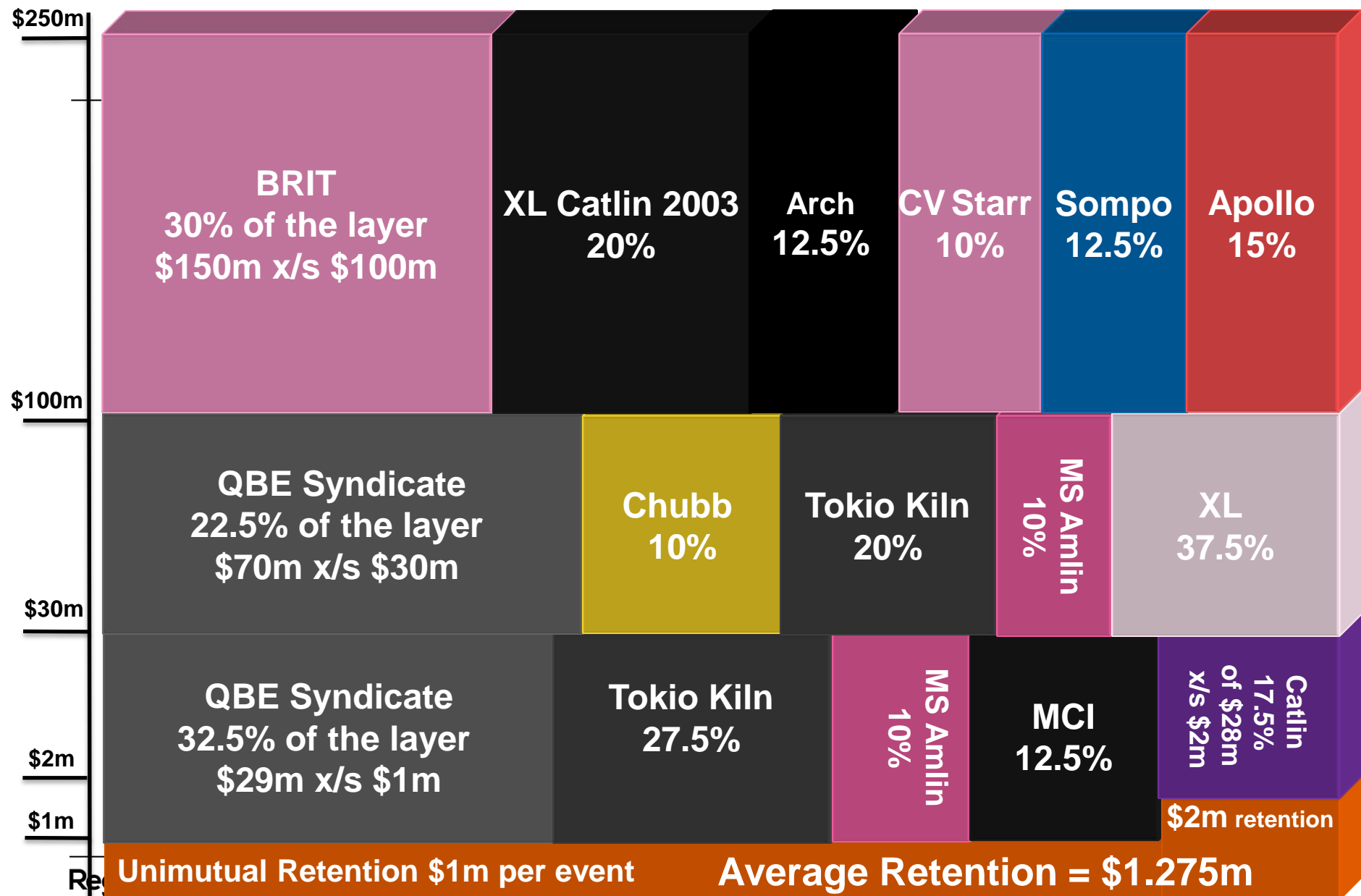
2018-19 Placement Structure



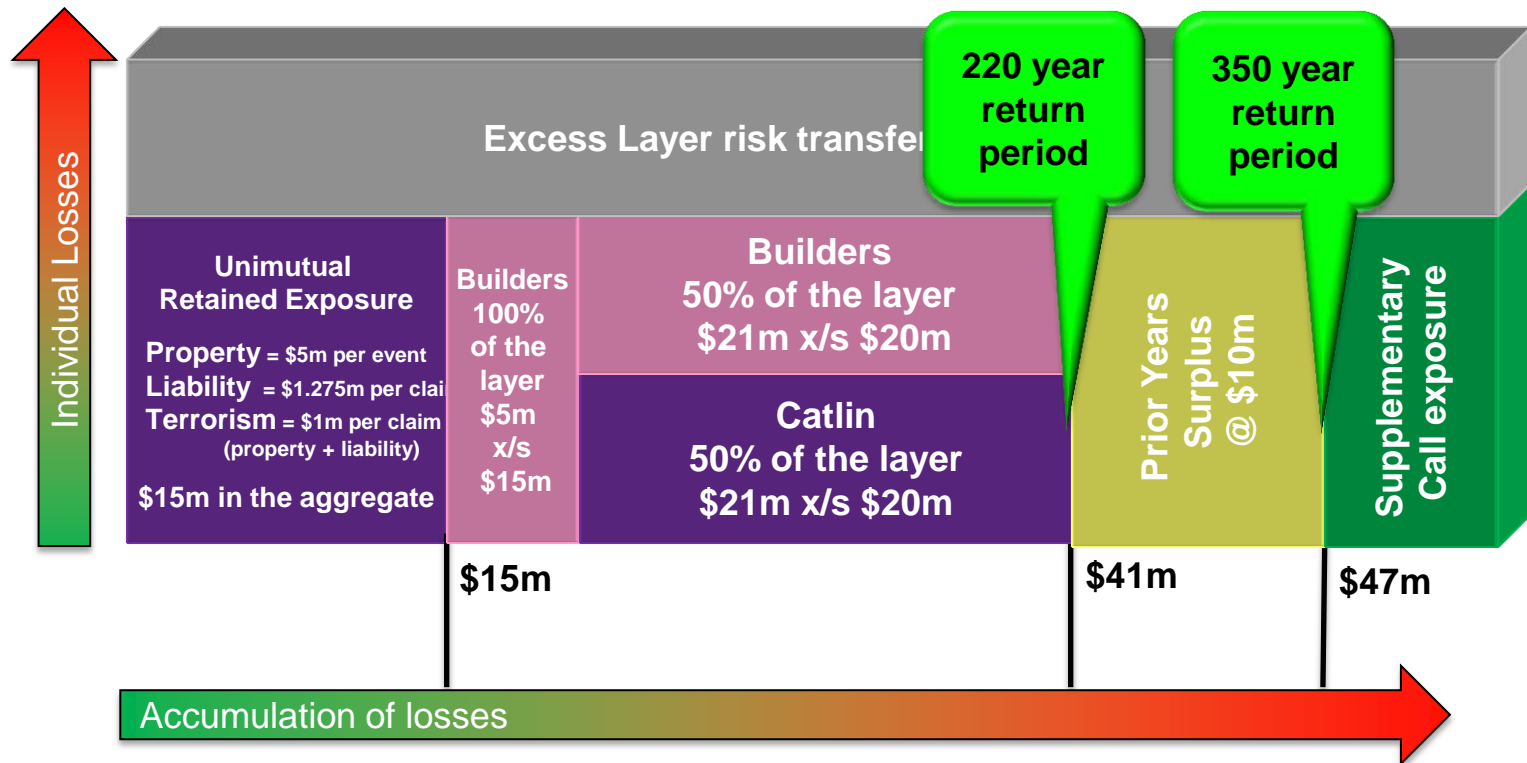
2018-19 property carriers



2018-19 liability carriers



2018-19 Aggregate

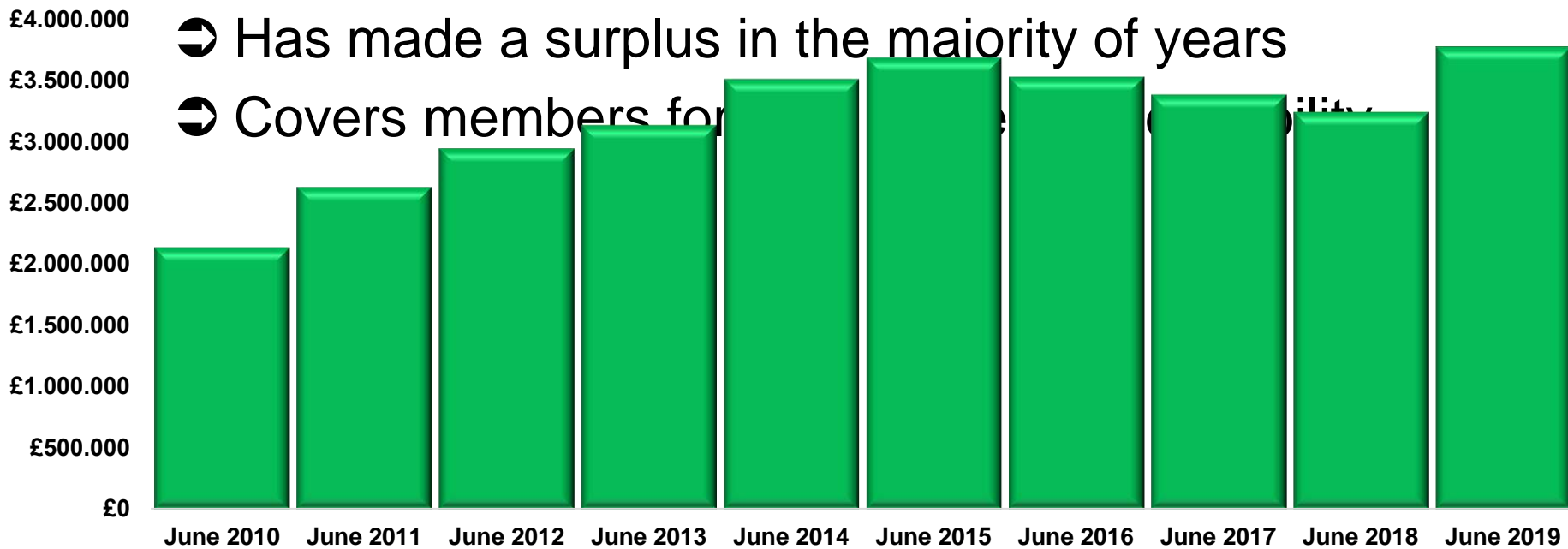


The Livery Companies' Mutual



Livery Companies' Mutual

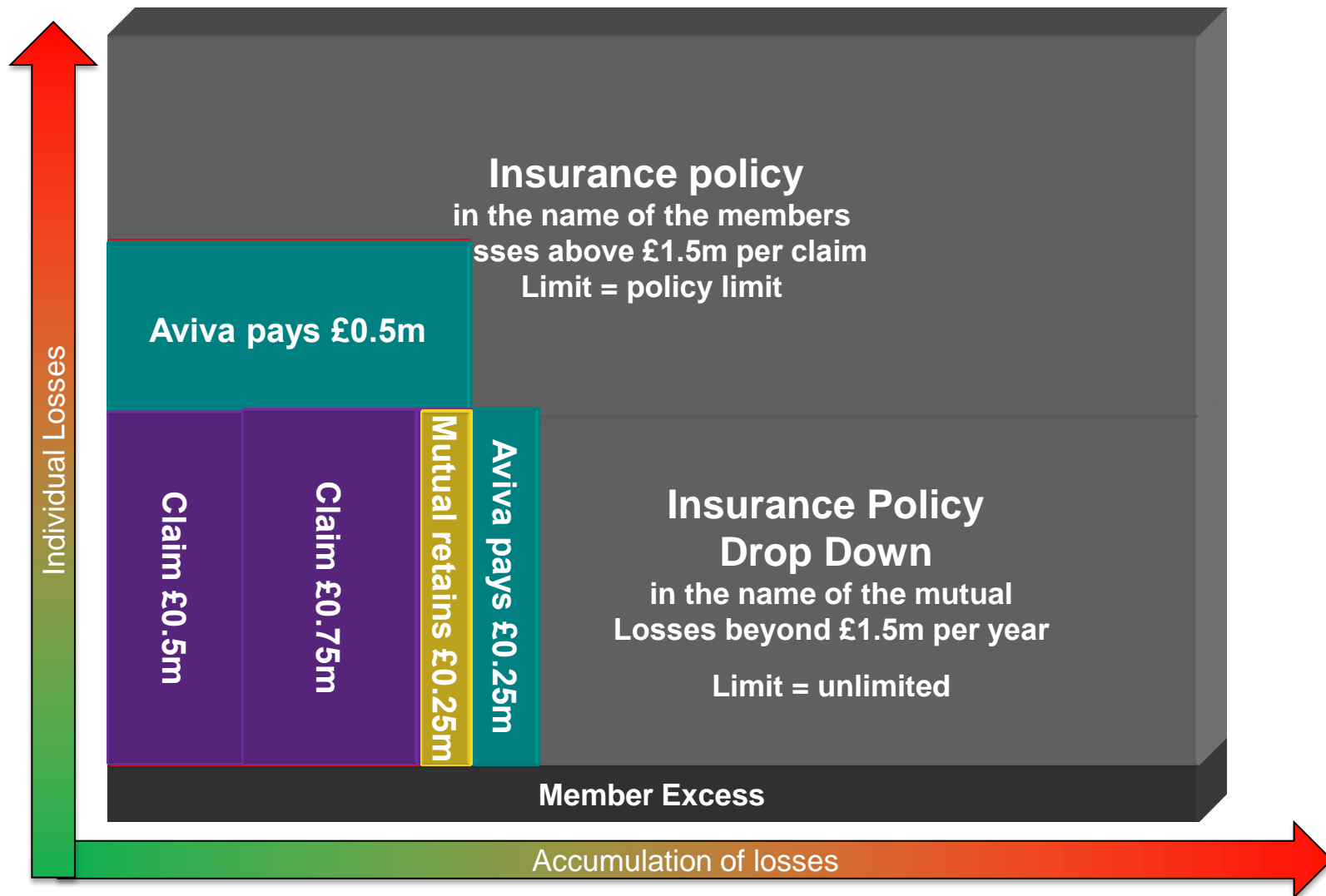
- ➔ Founded in 1999
- ➔ Over 70 members - >£2.6bn of assets protected
- ➔ Is a Hybrid 'Mutual'
- ➔ Members are Livery Companies or similar
- ➔ Has made a surplus in the majority of years
- ➔ Covers members for...



Key Features

- ➔ Discretionary mutual
- ➔ Hybrid Structure
 - ➔ All members named as insureds on the excess policy
- ➔ Mutual retains first £1,500,000
- ➔ Excess protection arranged with A+ rated Insurer and others

Livery Company Mutual Financial Structure



Surplus distribution

- ➔ The Mutual has distributed over £1.6 million of surpluses back to Members so far
- ➔ The Mutual has accumulated surpluses of over £4.2m of surplus (as at June 2019)
- ➔ Surpluses generated annually are typically in the range of 15 – 25% of contributions
- ➔ Board wishes to accumulate at least £5m of surplus

Regis

What does Regis do?

➔ Leading mutual development & management company

➔ Regis performs following management functions:

- ➔ Underwriting
- ➔ Wordings
- ➔ Claims
- ➔ Actuarial
- ➔ Accounting
- ➔ Marketing
- ➔ Sales
- ➔ Legal
- ➔ Account management
- ➔ Risk Management
- ➔ Business Analysis
- ➔ Project Management
- ➔ Product Design
- ➔ IT/Systems
- ➔ Contact Centre
- ➔ HR
- ➔ Compliance and regulatory
- ➔ Risk and Governance
- ➔ Company Secretariat
- ➔ Placement & broking
- ➔ Mutual design
- ➔ Mutual start-up

Mutuals currently under management by Regis



Activities Industry Mutual (AIM)

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



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.



Local Government Mutual

Local Government Mutual

Launched in April 2019. A joint venture between Regis and the Local Government Association (LGA) offering protection to over 300 LGA members who have an estimated annual insurance spend in excess of £600m.



CAMC

(formerly The Caravan Club)

The Caravan and Motorhome Club was founded in 1907. It has over 300,000 members, with circa a third of those having previously purchased white label insurance products via the club. From March 2018, the 5C's product is converting from a white label product, to a mutual product.



The Livery Companies' Mutual

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



Employsure Mutual

Launched in April 2019. Employsure are Australia's leading workplace relations specialists. Empowering business employers to manage the risks associated with remaining Fair Work and WHS compliant.

Employsure previously offered their customers access to an insurance scheme. In 2018 annual premiums paid exceeded AUD\$15m. This scheme has been converted to become Employsure Mutual delivering a multitude of financial and commercial advantages for Employsure and their customers.



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.



The Fire & Rescue Indemnity Company Mutual

The Fire & Rescue Indemnity Company Mutual has been set up to provide an alternative to conventional insurance for like-minded fire authorities that are prepared to take a proactive approach to risk management.



Unimutual

Unimutual is now the leading provider of liability risk protection to the sector for general third party liability, professional liability and medical practice and clinical trials, but is also the leading provider of risk protection for the very substantial property assets of the university sector.



Independent Schools' Mutual

Independent Schools' Mutual

Our newest mutual which is launching at the ISBA annual conference in May 2019. Eight schools formed the working group for the construction of this mutual which is now moving into launch the launch phase and becoming operational during summer 2019.



The Retail Mutual

The Retail Mutual was established in 1999 to provide a fairer alternative to conventional insurance for newsagents. In 2017 the NFRN Mutual transformed into the Retail mutual to support independent retailers on the high street

Questions

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