FAQs

1. How does it work?

The LGA has looked at various mutual structures. One model being reviewed is a 'hybrid discretionary mutual' whereby the mutual takes the first part of the risk up to a specified limit on a discretionary basis and above this limit it arranges insurance to the full limit of cover required. Members pay a 'contribution' into the mutual to benefit from the protection it provides. The contribution varies between members based on the risks they bring to the mutual.

2. How do mutuals work?

A mutual is owned by its members. Mutuals must act in the interests of their members and it is the membership which, through the elected board, exercises ultimate control of a mutual.

Research indicates that mutual membership could produce immediate and long term benefits including cost savings. Mutuals can balance risks retained within the mutual with an optimum use of the insurance market, and can attract beneficial tax treatments, such as Insurance Premium Tax savings on the contributions from members.

A mutual is created to provide cost effective risk transfer, not to generate profit. Any surplus of mutual trading funds belongs to the members of the mutual and surpluses may, in time, be returned to members. Members of the mutual can also benefit from better risk management driven by the transparency of available data and the mutual ethos to pool information to share best practice.

3. How secure is a mutual?

Mutuals operate successfully in many other sectors and in different countries. The LGA is exploring a mutual model which allows for attritional/expected losses to be met from mutual funds, with exceptionally large losses/accumulations of losses being met by insurers. This type of model is very secure.

The perceived risks of a mutual having to decline valid claims or make calls for additional contributions can be eliminated through the arrangement of excess of loss and aggregate insurance at the appropriate levels, so that the mutual's board knows at the start of every financial year what its worst-case scenario is – and this worst-case scenario is already funded.

The board of the mutual will retain the services of suitably qualified and experienced professional managers to ensure efficient management of the mutual fund and the insurance protection programme.

The long term strength of a Local Government mutual will, however, be determined by the pace of membership growth provided by authorities seeking better, more cost-effective protection and being willing to take control with other like-minded local authorities of their own risk transfer programmes.

4. **Is there any possibility of the proposed mutual going the same way as MMI in the early 1990's**

MMI was established in 1903 by local authorities in the UK, and it served as the sector's insurance supplier until the early 1990s. In 1991, having de-mutualised, the net assets of the Municipal Mutual Insurance Limited (MMI) and the Municipal General Insurance Limited (MGI) fell below the minimum solvency requirements calculated, and Managing Trustees concluded that the business should be sold.

A key factor affecting the company's losses was a lack of reinsurance at a time of significant increase in the number and cost of local government liability insurance claims. This issue will be explicitly addressed in arrangements for the new mutual.

5. **Are mutuals less expensive?**

The LGA commissioned modelling work in partnership with a number of local authorities which has identified significant savings opportunities. No authority will be asked to commit to the Mutual without knowing the level of contribution it would be required to make. Authorities will, therefore, be able to make fully informed decisions on the financial advantages of mutual membership. In fact, the only way for local authorities to seek admission to the mutual will be as a consequence of a properly conducted business case that has been submitted for Executive decision by the council's finance team.

6. **Do Founding members need to place their risks into the mutual?**

No, becoming a founding member will require an executive decision within an authority but does not commit the authority to placing risks into the mutual once it starts trading. The founding members will establish the mutual and oversee the procurement of its management service.

7. **If the insurance market responds with more competitive pricing why would we join the mutual?**

The mutual should provide councils with a choice in the way in which they transfer risk. Some councils may prefer to stick with traditional insurance placement but we believe the mutual could provide an attractive alternative. The mutual will set member contributions transparently in order to raise sufficient funds to meet expected claims (based on its members' claims histories) and to procure stop-loss and aggregate claims insurances from its panel of insurers.

Insurance companies have the flexibility to reduce their prices in the short term, but it is worth noting that a mutual could potentially bring sustained price reductions and the surplus, which would ordinary flow out of the sector as shareholder profits, would instead belong to the local authority members.

8. How do mutuals deal with higher risk members?

Members' contributions reflect the risk and claims history that they bring to the mutual fund. Good and continuously improving risk management will be a key principle of any mutual and an important benefit of mutual membership. The admissions process will involve disclosure of applicant local authorities' risk management systems and processes. There may be some authorities that require support in updating these systems and processes before they are accepted for risk cover. It would be the intention of the mutual to work with any such authority to help them bring about the changes that enable them to join as soon as possible.

9. What happens if my local authority wants to leave the mutual?

A member would be able to leave the mutual at the expiry of the period of cover. The Rules of the mutual will also set out circumstances in which membership may be terminated by the mutual.

10. Can we 'wait and see' how successful the mutual is before making the decision to join?

All mutuals require a certain level of critical mass in order to commence trading. We don't anticipate that the mutual would close to new membership, so a 'wait and see' approach is certainly possible, as long as enough councils want to participate at the start. Of course, members only share in a mutual's surplus in accordance with the scale and duration of their contribution to the mutual's funds.