



PRESENTATION TO

THE AISAM-ACME CONGRESS, BRUGES

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Summary

- Who Are We?
- New Mutuals in UK and Australia
- Corporate Structures
 - Domicile
 - Insurance Company – UK
 - Discretionary Mutual
 - Hybrid
- Financial Structure`
- Why Form or Join a Mutual?
- Mutual Start-Up Process
- Examples
- Future

Who Are We?

- CTC manages Mutuals across a range of Industries
- London, Bermuda, USA, Canada, Singapore and Australia
- CTC
 - not Brokers
 - not Insurers
- Civil Servants of the Industry
- Champions of the Mutual ethos

New Mutuals in UK and Australia

- Mutuality not far beneath surface
- New small mutuals starting up over last 5 years
- Personally involved in 8 start-ups
- Most involving small industry groups:
 - Newsagents
 - Universities
 - Livery Companies
 - Motor Repair Trade
 - Care Homes
 - Activity Centres
 - Health Care (Private Hospitals)
 - London Boroughs

Corporate Structures

- Three types of Mutual possible in UK:
 - ① Mutual Insurance Company
 - ② Discretionary Mutual
 - ③ Hybrid

Domicile

- Onshore UK or Onshore Australia
- Offshore UK or Offshore Australia
- 'Doctrine of mutuality' applies

Insurance Company - UK

- FSA Regulator
- Insurance Mutual has similar capitalisation requirements to a conventional insurer
- Some discount given if recourse to members under Constitution
- FSA more accommodating now
- Onerous reporting regime

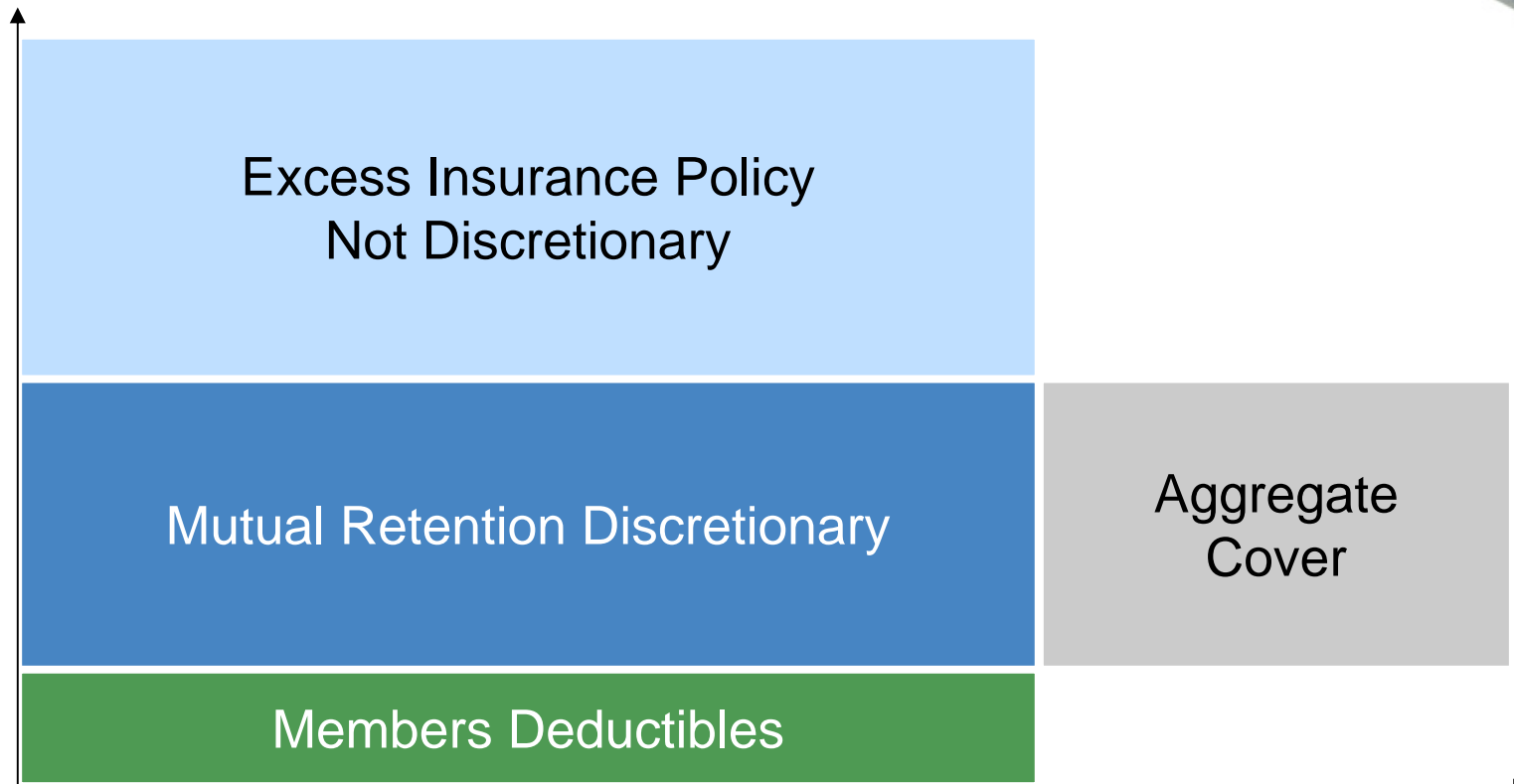
Discretionary Mutual

- Discretionary Mutual not regulated
- Claims paid at discretion of Board
- Does not need to be capitalised
- No reporting to FSA

Hybrid

- Best of both worlds
- Mutual retention – discretionary
- Excess policy sits above
- Can produce efficient results

Financial Structure



Why form or join a Mutual?

- Particular group out of sync with insurance market
- Cover required not available
- Premiums unrelated to claims experience
- Group requires stability of premiums
- Achieving results as a group that not available individually

Plus or minus

Or at high cost

No incentive

Avoid cyclical market

Collective

CONSIDER FORMING MUTUAL

Why form or join a Mutual? (cont'd)

- Cover as wide as is prudent
- Costs close to cost price as is possible
- Premiums related to actual claims experience
- Control rests with members
- Superior data
- Proactive risk management
- Superior claims handling and service

Not minimum necessary

Structural efficiency

No cross-subsidisation

An elected board

And dissemination

Incentive

Membership control

Mutual start-up process

- Identify potential membership Industry Group
- Critical mass? Premium Volume
- Risk sharing? Explicit
- Data gathering and analysis Rubbish in / Rubbish out
- Validation Same
- Feasibility Prospectus
- Acceptance Members
- Still critical mass? Premium Volume
- Implementation Military Precision
- Migration strategy Forces of Darkness
- Start Go

A Recent Example

- The Livery Companies' Mutual
- Established 1999 with 4 Companies
- Now 38 members covering assets of £1.2bn
- Initial retention £10k now £1m
- Income £1.5m pa
- Reserves £1.5m
- Returned 33% to members year 1
- Returned 25% to members year 2

LIVERY MUTUAL - I&E SUMMARY BY YEAR

	<u>1999/00</u>	<u>2000/01</u>	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2004/05</u>	<u>2005/06</u>	<u>Budget</u> <u>2006/07</u>
Contributions	291,868	531,066	777,410	1,016,897	1,253,103	1,350,906	1,465,557	1,460,346
Investment income	14,248	31,021	33,249	56,790	54,811	36,531	18,930	25,080
Excess & stop loss premiums	(110,326)	(200,743)	(367,326)	(486,904)	(567,067)	(653,121)	(676,305)	(505,646)
Claims (inc. IBNR)	(6,251)	(34,432)	(79,593)	(39,271)	(71,024)	(121,583)	(280,000)	(102,224)
General Admin. expenses	(82,111)	(156,954)	(185,474)	(229,214)	(280,965)	(297,460)	(336,854)	(334,543)
Surplus	107,428	169,958	178,266	318,298	388,858	315,273	191,328	543,013
Surplus as % of contributions	36.8%	32.0%	22.9%	31.3%	31.0%	23.3%	13.1%	37.2%

London Authorities' Mutual Limited

- Will be an FSA authorised insurance company
- Will be capitalised by the members by guarantee
- Will offer corporate Property, Liability and Motor covers above significant underlying deductibles
- Will commence underwriting in April 2007

London Authorities' Mutual Limited

- 12 London Boroughs have committed to join the mutual
- Anticipated initial gross premium income is £9m
- Total potential is 32 members with income c£40m
- Offers members up-front rate reduction of 15%
- Anticipated surplus of £1.6m after 5 years of trading assuming no growth in membership

Future

- Interest in mutuality
- Clients disillusioned with market
- Issue is always critical mass
- Hybrid / Discretionary model works well where no capital
- Need to recognise value of mutual alternative
- Encourage exploration

Any Questions?

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