Support
for Growth

Future Business

Discretionary Mutual Fund

Information Kit

Updated October 2019

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Contact Details

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1. What is a Discretionary Mutual Fund?

What is a Discretionary Mutual Fund? How is it different to traditional insurance?

Under a traditional insurance structure, the insurance company acquire a business' risk, which is transferred when a policy agreement is signed and paid. The policy owner makes annual payments in the form of a premium which increases when a claim is made. Insurance companies then make a profit by investing the money received through their premiums, which is not shared with, or returned to, policy owners in any way.

A DMF is not insurance, it offers 'discretionary cover' in the form of an insurance-like product. It is a legally owned company and is run by industry members (through a Board of Directors). As a group, the fund owners take control of the risk – so instead of the insurance company you're currently paying owning the risk, the members of the DMF will collectively do that via annual payments.

If the apple and pear industry decide to set up a DMF, members would have complete control over the use of money in the fund and how claims are paid. The Board would also make decisions as to how the additional funds, not used in any given year, can be reinvested to benefit members. In most cases, the reinvestment would be focused on improving risk management strategies and providing better outcomes, including a possible reduction in annual contributions over time.

Important Definitions

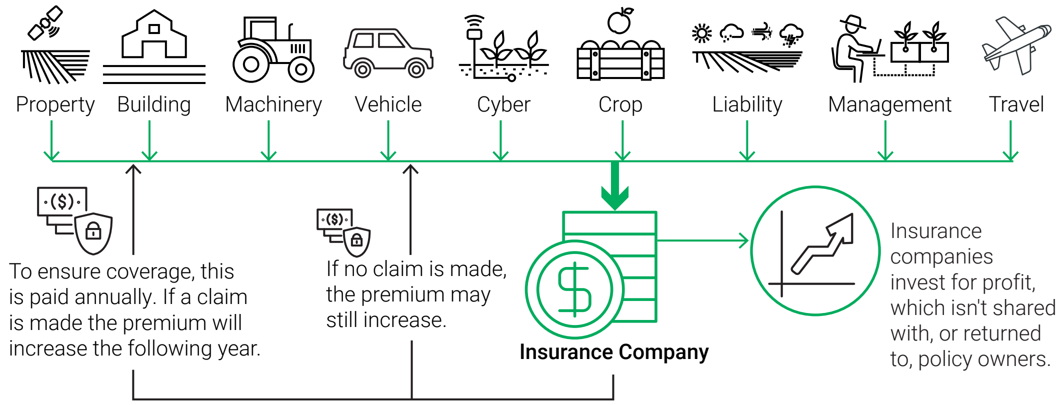
- Discretionary cover: the product issued by the DMF is discretionary, this means the Board has absolute control over the payment of claims.
- Aggregate: each year, an aggregate is formed by contributions from members and is the total amount of money available for the payment of claims and operating expenses in any one year.
- Surplus: when total annual claims are less than the aggregate cost anything above that is considered a surplus. This adds up over time and can be used to benefit industry to reduce premiums, offer learning and development opportunities, reduce future contributions and for industry investments.
- Excess of Loss (XOL): XOL provides catastrophic loss protection which means the mutual is still covered by an underwriter and this money is used to cap members' liability at the aggregate.

Traditional insurance vs. Discretionary Mutual Fund

An insurance policy promises an indemnity; in contrast a DMF risk product promises a claim for loss will be considered.

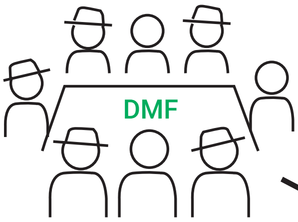
TRADITIONAL INSURANCE

Select your insurance:
The business' risk is transferred to the insurance company when the policy agreement is signed and paid.



DISCRETIONARY MUTUAL FUND (DMF)

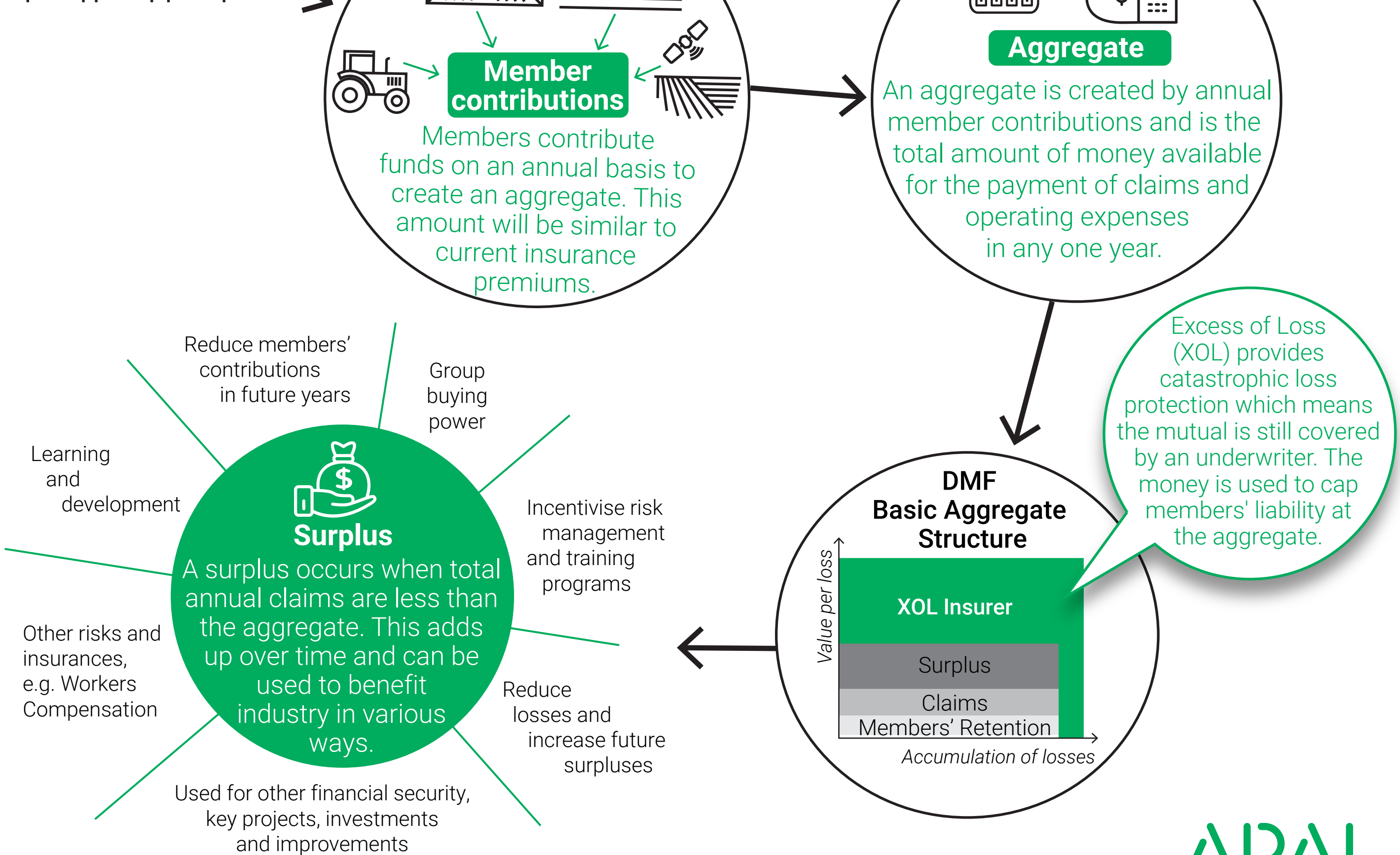
A DMF is a company limited by guarantee with a board of directors who are majority members: owned and run by members, for members.



A DMF is set up to benefit all members. It is a self-insurance structure that provides an opportunity to control and manage an industry's collective risk, helping industry to directly profit from risk management improvements such as industry training and development, or even reduced premiums.

A DMF is not insurance, however, it offers 'discretionary cover' in the form of an insurance-like product.

Success of a DMF comes down to scale, the more members involved in sharing the risk, the more successful the outcomes will be. The geographical spread of the Australian apple and pear industry is favourable as it's unlikely a severe weather event, for example, will hit each region at the same time.



2. Why this? Why now?

Traditional insurance premiums are increasing significantly each year with one large Victorian packing shed reporting their annual premium doubled from $200,000 to $400,000.

Much of this increase is reportedly due to the flammable nature of EPS panelling which is often used to insulate cool storage facilities. This is classified as a hard-to-place risk in terms of insurance and an area where a DMF, for example, could act as a financial vehicle for the management of these risks.

In theory, due to the scale and geographical spread of the Australian apple and pear industry, a DMF is a good option but it's important to have the facts and figures supporting this idea. Understanding some key financial and operational analytics in your business will help assess the potential benefit of a DMF. The more businesses who participate in this, the more APAL can map the opportunity in terms of size and value to all members.

Four ways a DMF may benefit you

1. Reduce insurance costs: As DMF protections are not insurance, insurance statutory charges do not apply. Using a DMF structure, businesses in NSW and Tas are not required to pay the Fire Services Levy and most states are not required to pay stamp duty. In some cases, the combined effect of these two charges can be an additional 45 per cent on top of current insurance premiums.

2. Reward sound risk management initiatives: A DMF is a self-insurance structure that provides members with the opportunity to jointly asses and manage risk, and to directly profit from risk management improvements such as industry training and development, make business investments or even reduced premiums.

3. Spread risk: Success of a DMF comes down to scale. The more members involved in sharing the risk the more successful the outcomes will be. The geographical spread of the Australian apple and pear industry is favourable as it's unlikely a severe weather event, for example, would hit each region at the same time.

4. Tax benefits: A DMF also offers an effective tax structure under the principle of mutuality which is based on the understanding that an organisation cannot receive an income from itself. Because the DMF would be owned by the industry, the Australian Government does not view it as taxable revenue.

3. What is required to participate?

To take part in the Feasibility Study, you will be asked to provide the following information for each insurance type your business has purchased (including Workers' Compensation), for the last five years:

1. Assets, including all locations and value of assets and motor vehicles.
2. Turnover.
3. Wages.
4. Individual full-time and part-time employee counts.

For each insurance policy purchased, you will also be asked to provide a five-year history, containing the following key documents/data:

1. The Insurance Schedule that relates to each policy, including a premium and summary of cover purchased.
2. Claim history.

Register your interest to participate in the study by visiting: www.surveymonkey.com/r/DMFfeasibilitystudy where all information can be uploaded online. Alternatively, you can request that a representative from AB Phillips or KJ Risk Group, the risk experts conducting the feasibility study, contact you directly.

Table 1: Timeframes

Feasibility study submissions open:	Tuesday, 17 September 2019
Feasibility study submissions close:	Friday, 22 November 2019
DMF feasibility study report	December 2019
Future Business Workshop: *Discretionary Mutual Fund - is it feasible?*	Tuesday, 21 January 2020 *Melbourne*

3.1 What happens to the information I provide?

All data and information collected by APAL, AB Phillips and/or KJ Risk Group will only be used for the purpose of a feasibility study into setting up a Discretionary Mutual Fund and group insurance purchasing for the Australian apple and pear industry.

View the KJ Risk Group, AB Phillips and APAL Privacy Statements on the APAL website: www.apal.org.au.

4. Next Steps – I'm interested to take part, what do I do now?

To take part in the feasibility study, please register your interest online: : www.surveymonkey.com/r/DMFfeasibilitystudy.

You will then have the option to **either**:

- Upload your documentation; or
- Ask to be contacted directly by AB Phillips or KJ Risk Group to assist you through the process.

Information collected through the feasibility study will remain confidential and will not be shared without the permission of participants.

At the conclusion of the study, AB Phillips and KJ Risk Group will outline their recommendations for pursuing a DMF, including member framework and a risk assessment for each viable option.

This report will be made available to all APAL members by the end of December 2019.

Please note that participation in the feasibility study in no way commits you to future involvement in the DMF.

5. Want to know more? Additional resources

A range of videos, facet sheets and a case study are available to view on the APAL website: https://apal.org.au/programs/future-business/discretionary-mutual-fund/.

Future Business Calendar of events

Regional workshops

The first round of Future Business workshops will focus on helping business owners and key staff understand and identify various risks.

Understanding risk - What are your obligations?

Topics include: practical applications that promote ease of reporting and processes; key components of risk; workplace health and safety; and how risk will be shared through the Discretionary Mutual Fund.

29 Oct – Hobart, Tas
30 Oct – Warragul, Vic
4 Nov – Stanthorpe, Qld
6 Nov – Orange, NSW
7 Nov – Batlow, NSW
8 Nov – Shepparton, Vic
19 Nov – Adelaide Hills, SA
20 Nov – Manjimup, WA

Places are limited, register online at:
https://apal.org.au/risk-management-workshops-2019/

Powerful changes secure cost savings

Participants will learn practical ways to take control of their business' energy usage and cost while optimising their current systems.

14 Nov — Melbourne Cricket Ground (MCG)

- Followed by the APAL AGM
- Join us the day prior for the Grower R&D Update.

Places are limited, register online at:
https://apal.org.au/rethink-sustainability/

Save the date

Discretionary Mutual Fund - is it feasible?

Following the industry-wide feasibility study, KJ Risk Group will present the findings and outline their recommendations for pursuing an alternate risk financing option for the apple and pear industry to replace traditional insurance policies.

21 Jan 2020 — Melbourne, Vic

- Join us the following day for the APAL Post-harvest seminar.

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