

## Group Insurance Scheme Initiative

by

Tom Mc Donald, LLB (Hons), LLM, jssc, chartered associate of the Australian Risk Policy Institute and Director, Legal and Insurance Policy, ACT Treasury

The paper provided on this subject, prepared by our associate and colleague, Kevin Wenman reflects the nature of the Institute's short issues paper development and peer review process, I believe a necessary example of the structured way we at ARPI approach our publications, but more important, it contains an understated depiction of an insurance initiative that represents the first of its kind in Australia.

For the first time in Australian insurance history, a combined array of insurance policies has been made available to diverse community organisations in a single package. The unique feature of this package is that it is available at the same comparatively (heavily) discounted price for community groups that represent differentiated risk.

It was developed in house, in my branch in the ACT Department of Treasury, and marketed through Volunteering ACT, the peak community, or not for profit organization body in the ACT, and AON Insurance, the second largest insurance broker in the world. Volunteering ACT is nationally affiliated.

Basically the product is this. It is a composite policy involving public liability insurance, accident insurance for volunteers and what we would know as directors and officers insurance for officers of volunteer organisations. It is a single policy. It has a single, heavily discounted premium irrespective of the risk of public liability or other activity that the organisation presents to the combined insurance equation. Price reflects two elements: the benefits of a combined product structure with a unified approach to risks across that diverse structure.

This product flows from work that was started in the insurance crisis of 2001-2002. A significant consequence of the insurance crisis was that community organisations lost their access to public liability insurance. The reasons they lost access are too complex to explain in the time allotted here. Suffice to say, it happened and the ACT Government asked me to fix it.

Now, the ACT represents 1.6% of the Australian general insurance market. The Australian general insurance market represents around 2% of the world market and underwriters, those who fund insurance cover walked away from Australia in droves. Those who continued to invest here did so in areas of much higher profitability than community public risk. Accordingly, our task was herculean.

We focussed on teaching community groups that calling upon their insurance policies ought to represent the last resort and that risk management ought to represent the first item of business. If that could be achieved, the ACT Government believed insurers would give preference to the smallest jurisdiction in the country.

The uptake of risk management principles by community (non-profit) organisations in the ACT, and the way that they embraced the government's policy with respect to dealing with that particular crisis was outstanding. Consequently, with the added benefit of some world

first web technology, sponsored by the Government and also developed in house, we became the first Australian jurisdiction to restore a dedicated public liability insurance product to our community sector, and it was achieved without spending one penny of taxpayer's money on premium support.

Once that was achieved, we implemented policies to minimise premiums. We ran an experiment that involved the first Australian group public liability insurance policy for community organisations that presented identical public liability risks (occupying office space in a government building and holding administrative meetings). That resulted in 46 organisations representing the breadth our multicultural spectrum all being able to insure at significant discounts on public liability insurance rates. Their premiums were \$100 each instead of thousands of dollars each, which they were at the height of the insurance crisis.

We have taken that particular policy and applied it to the subject matter articulated in our associate member's paper, except, in lieu of identical risk, the composite policy will be accommodate what we call differentiated risk across the three lines of insurance I mentioned.

The significance of this innovation ought not to be underestimated. The community sector is the most vulnerable in Australia in the insurance sense. The sector does not present a vibrant, expanding commercial market that offers corresponding expanded opportunities for the diversified finance and insurance conglomerates that emerged as a consequence of the crisis. Rather, the sector presents a static profile of financially strapped but dedicated organizations within which a single gas bottle explosion at a fund raising barbecue could wipe out 100 years of claim free premiums.

Before the insurance crisis, community public liability premiums were ridiculously low, so low as to put community organizations in the actuarial red zone. It was critical to establish a risk based approach to volunteer conduct, prove to the community sector that risk awareness was actually a more efficient platform for the conduct of their activities and then deliver the insurance product in support of that. The ACT Government delivered on its end of the bargain and the sector delivered on its end as well.

Thus, the latest, Australia first innovation reflects three things: the excellence of the ACT community sector in terms of its uptake of new concepts in risk awareness and management, proof of the fact that the insurance industry will step up to the plate when it has proven, risk based policies presented to it at the cornerstone of efficient community activity and last but most certainly not least, that premium pricing decisions will reward consistent application of risk policy across the community sector.

There is, of course a fourth element, leadership by peak community bodies in relation to the maintenance of high standard risk policies across the sector. In this jurisdiction, Volunteering ACT has led the way, guiding its affiliated community organisations through various necessary transitions in their internal and external behavior, to great effectiveness. We are presently in discussions with Volunteering WA, with a view to taking the idea national, for the benefit of the whole community sector.

Finally, my argument, based upon the above is that risk aware management of community activity is more efficient than any other way of conducting community activity. It is more efficient in the absolute sense because clarity of purpose breeds strong leadership and that breeds consistent decision making and consequent behavior that responds to clarity with

greater efficiency in service delivery. It means that those who provide financial support to community activity, government or private, have greater confidence that more cents in the dollars given will be expended on core service delivery. It also means that industries that provide the community sector with products or services will have greater confidence that their products will be utilized more effectively, their services will be better understood and applied in an environment of risk security and clearly directed mission comprehension.