



Virgin Pilots Association

Discretionary Mutual Fund

Precis

VIPA, a Registered Organisation representing 500 + Virgin Group pilots, approached Justin Niven of KJ Risk Group in 2013 to investigate the establishment of a Discretionary Mutual Fund for their members.

Under enterprise bargaining agreements pilots are entitled to (different) amounts, payable by the Virgin Group, to provide them with Loss of Licence protection.

Loss of Licence protection is triggered when the Civil Aviation Authority (CASA) suspends or declines the issue of a pilot's class 1 medical. The protection provides both income replacement and in some cases, a lump sum payment for a total loss of licence (pilot medical).

Feasibility

Warwick and Justin undertook a feasibility study, which analysed the existing policy, membership levels and EBA amounts to determine the appropriate cover for members with the requirement to match or exceed the existing levels of protection offered by traditional insurance.

The projected contributions were then utilised in financial modelling to test the proposed DMFs sensitivity to expected, high and low claim frequencies.

The goal of the modelling was to ensure that under any scenario the DMF could not lose money.

To achieve this, Excess of Loss (XOL) insurance is utilised. XOL insurance protects the DMF from high claims, acting as an insurance transfer. This means that losses beyond a certain point are no longer borne by the DMF but by an insurer, thus providing the DMF (and members) with certainty it can pay all eligible losses.

Once the financial modelling had been completed an insurance market for the XOL had to be found and that market had to commit to a price range determined by the modelling.

Implementation

The final step was to move into implementation of the DMF. This involved legal elements, drafting of key documents and agreements, placement of XOL, and marketing and communications with members to sign them up to the DMF protection.

Operation

The presentation to the group will touch on some of the operational challenges, but we would point out that scale is one of the largest barriers to successful DMFs.

The VLF continues to operate today and provides market leading protection to members.

