



Review into Small and Medium-sized Banks

Submission to the Council of Financial Regulators

10 February 2025

Introduction

The Business Council of Co-operatives and Mutuals (BCCM) thanks the Council of Financial Regulators for the opportunity to respond to the Issues Paper released as part of the Review into Small and Medium-sized Banks.

The BCCM is the national peak body representing the co-operative and mutual enterprise movement across all sectors of the economy including financial services, agriculture, motoring, health, housing, retail, small business buying groups, energy and social care.

Our membership includes 21 mutual banks and the Customer Owned Banking Association (COBA).

Our submission focuses on the role of mutual banks, the largest cohort of small banks in Australia.

A competitive banking system that is attuned to the aspirations of ordinary Australians needs a strong and growing mutual sector.

Whilst the smaller institutions in the banking sector, mutual banks collectively represent a vital force in Australian banking with more than five million customers who are also their members. Mutual banks serve underserved communities, not-for-profits and charities and regional, rural and remote Australia.

They also return a significant share of profits to the community. According to COBA's 2024 Impact Report, mutuals dedicated 5.2% of their surpluses to community and charitable organisations. In contrast, major banks contributed 0.6% of their profits to similar causes. Mutuals therefore contribute at a rate nearly nine times higher than major banks.

In recognition of the contribution of co-operatives and mutuals to sustainable development, the United Nations has declared 2025 the International Year of Co-operatives¹, and called on governments to:

'review existing legislation and regulations to make the national legal and regulatory environment more conducive to the creation and growth of cooperatives...especially in the areas of access to capital, autonomy, competitiveness and fair taxation'²

We therefore welcome this review as a timely opportunity for the Australian Government to consider how the legal and regulatory environment can better support the growth of mutual banks as part of a diverse, resilient, and competitive banking system.

The BCCM supports the submission of COBA and stands ready to provide further information to the Council of Financial Regulators.

¹ [UN International Year of Cooperatives 2025](#)

² See <https://docs.un.org/en/A/C.3/78/L.11>

2. Are regulators' approaches to regulation and supervision (including tiering and implementation approaches) suitably proportionate, efficient, and effective, having regard to the size, complexity and risks associated with the different segments of the banking sector?

While positive steps have been taken over recent years to make banking regulation more proportional, there is still a fundamental lack of recognition of mutuals in the design and implementation of regulation.

For example, no mutual was called before the banking Royal Commission, yet mutuals have been required to comply with many post-Royal Commission conduct regulations.

The introduction of a corporate diversity mandate for regulators would be an important step to ensure mutuality is properly considered as a component of proportional regulation (whether in prudential standards, competition law, conduct regulation or other).

See Recommendation 2 below for further discussion of this.

9. What is the role and impact of the small and medium banks in providing competition? How does this benefit consumers?

Mutuals are the largest cohort of small banks. They are owned differently, behave differently, have different risk profiles and different capacities to innovate and partner with governments, communities and other co-operatives compared to the non-mutuals.

Mutuals enhance competition and diversity in the banking sector by providing an alternative to large profit-maximising banks, focusing on long-term service quality rather than short-term profits.³

Research undertaken by the BCCM during the COVID pandemic found a connection between the centrality of member-focus in times of crisis and longevity for businesses. The report found that co-operatives and mutuals were 25 per cent longer lived than their ASX listed counterparts.⁴

The impact of mutuality includes:

For Consumers and Communities

- **Lower Costs and Better Services** – Members benefit from competitive pricing, lower fees, and higher service quality in banking, insurance, housing, healthcare, and utilities.⁵

³ See BCCM, [Message Blueprint](#), 26–27.

⁴ See BCCM, [Leading the Resilience](#)

⁵ See for example [About Our Funds – Members Health](#)

- **Access to Essential Services** – They ensure fair access, particularly in underserved or rural areas.⁶
- **Stronger Consumer Rights** – Member ownership anchors business practices such as fair treatment, transparent pricing and culturally-appropriate services.⁷

For Competition and the Economy

- **Increased Market Competition** – Mutuals counterbalance corporate monopolies, keeping prices fair and improving service quality.⁸
- **Resilience** – Their long-term, risk-averse business strategies and relationships of trust with consumers help stabilise financial markets and reduce systemic risks.⁹
- **Local Investment** – Instead of profits concentrating among a few shareholders, earnings are reinvested into member benefits, community projects, and local economies and employment.¹⁰
- **Sustainable Business Practices** – Mutuals are leaders in social impact, environmental responsibility, and ethical and democratic governance.¹¹

Many examples of these benefits specifically in relation to mutual banks are provided in the [COBA Impact Report 2024](#).

17. Are there private sector led initiatives that could address some of the issues being faced by the small and medium banking sector? Please provide examples

From the earliest days of building societies, mutuals have had a historic mission to support Australians into secure housing. However, the current housing affordability crisis is wider ranging than a credit issue that can be addressed by banks (of any size or ownership form) alone. It requires broader policy interventions to boost housing supply, private and community-led innovations in housing development, tenure and financing models, and long-term promotion of corporate diversity in the banking sector. The latter is important because it will ensure that when a larger pool of borrowers returns to market, there will be a strong mutual sector to apply price discipline to the for-profit lenders.

Mutual banks can play a special role in the broader effort to address housing affordability due to their ability to partner with communities, governments and other co-operatives in developing innovative solutions to economic and social challenges.

The BCCM has adopted a [national housing strategy](#) that focuses on some potential mutual-led solutions, including:

- Facilitating new and innovative mutual financing of housing

⁶ See Per Capita, [Co-operative Employment Economics: Sustaining Employment and Community Prosperity](#)

⁷ See for example NACCHO, [Key Facts](#)

⁸ See for example Members Health, [About Our Funds](#)

⁹ See for example ILO, [Resilience in a Downturn: The power of financial cooperatives](#)

¹⁰ See BCCM, [National Mutual Economy Report 2024](#), 18–21

¹¹ See for example, BCCM, [Climate Policy Report](#)

- Growth of housing co-operatives

In countries such as Switzerland, collaboration between mutuals, other co-operatives and government has been a successful means to provide affordable housing backed with a sustainable financing model.¹² Australia should learn from these approaches and trial partnerships with co-operatives and mutuals to diversify our housing provision and financing models.

Recommendations

The policy, legislative and regulatory environment plays a key role in deciding the success of businesses. This impacts mutual banks not only because of their size but due to their different corporate purpose:

‘A balanced society necessitates the existence of strong public and private sectors, as well as a strong cooperative, mutual and the other social and non-governmental sector. It is in this context that Governments should provide a supportive policy and legal framework consistent with the nature and function of cooperatives.’¹³

Jurisdictions that recognise the valuable contribution that mutuals make have well-structured legislation and regulation reflecting a coherent policy understanding of what mutuals contribute, and how their potential can be unleashed. The framework for doing business enables them to play a full part in building strong and diverse economies.

Australia should focus on creating a world leading business environment for mutual banks that reflects the best of the history and culture of Australian member-owned finance while drawing on international best practice.

The BCCM supports the recommendations of our member, COBA, and in addition recommends:

A. Level the playing field

- 1. That the Federal Parliament solidify recognition of the mutual form in the Corporations Act by enacting legislation to guarantee mutual legacy assets for the purpose they were intended.**

In April 2019, Federal Parliament passed legislation defining a mutual entity for the first time and introducing Mutual Capital Instruments (MCIs), a new type of share that enables mutual entities to raise capital without risking their ownership structure.

The legislation was the first positive change to the Corporations Act for mutuals in 18 years.

¹² BCCM, [European Housing Study Tour Report](#)

¹³ ILO, [Recommendation 193](#)

Building on this important step to recognise mutuals as a distinct corporate form and empower them to raise capital, it is now time to provide mutuals with the means to guarantee their legacy assets for the purpose they were intended.

Over generations, co-ops and mutuals have built up assets for the benefit of their communities. Legislation can ensure these legacy assets are preserved for the purpose they were intended and not the subject of asset raids. Members would be empowered to decide what should happen to assets on a solvent dissolution and prohibit capital distribution beyond what members have contributed.

In jurisdictions where legacy assets are not available for distribution, demutualisation is extremely rare and consequently, mutuals maintain their member ownership and raise capital with confidence, reflecting significant mass in a range of markets including banking.

2. That ASIC, APRA and the ACCC should have a statutory duty to promote corporate diversity across all sectors of the economy

The history of Australian business shows that co-operatives and mutuals have been the true challenger institutions to the largest corporate businesses. Often, mutuals ‘make the market’ by delivering their purpose of providing affordable services to consumers, including in banking.

Regulators should be responsible for ensuring that a wide range of corporate providers is available to consumers across all sectors of the economy.

As they are limited by the scope of their statutory mandates, regulatory bodies can only consider the role and impact of different corporate ownership models when they are clearly mandated to do so. Legislation could introduce a statutory obligation on regulators to measure and promote corporate diversity in financial services and other industry sectors.

ASIC, APRA and the ACCC should each be responsible for ensuring that their rules promote corporate diversity and that no type of business is disadvantaged by the rules that they introduce and operate. It should lead to more proportionate regulation and build into the process an understanding that ownership makes a difference to how businesses operate.

B. Encourage growth and innovation

3. That the Federal Government establish a Competition and Growth Taskforce

Clearly there is a consensus about the lack of appreciation of the purpose of mutuals. We need a vehicle to take forward a pro-growth, pro-competition, corporate diversity agenda that supports the existence of mutual banks and the wider co-operative economy.

We recommend the Federal Government sets up a Competition and Growth Taskforce to examine inter alia:

- The structure, distribution and effects of capital ownership in Australia
- The impact of legacy assets protection on market diversity

- Best practice of industry collaboration in jurisdictions where there is a balanced mix of corporate structures
- The potential role of mutual banks in SME funding and affordable housing.

This Taskforce could sit within Treasury and include staff from diverse backgrounds including not-for-profits, superannuation and the co-operative and mutual sector and would report to the Minister with responsibility for the sector.

About the BCCM

The BCCM is the national industry peak body for co-operatives and mutuals, working with governments, regulators, and policymakers to ensure the Australian economic landscape is fully able to benefit from a competitive co-op and mutual movement.

Through its member co-ops and mutuals, the BCCM represents 12.8 million individuals and 60,000 businesses.

The BCCM has supported new co-operatives and mutuals to form in a range of sectors and is a member of the International Co-operative Alliance (ICA) with access to world-wide networks.

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