



Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

28 July 2017

Dear Sir or Madam

Submission to the inquiry into the value and affordability of private health insurance and out-of-pocket medical costs

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to provide a submission to the Senate Standing Committee on Community Affairs inquiry into the value and affordability of private health insurance and out-of-pocket medical costs.

We refer the Committee to the submission made by HCF to the Senate Economics References Committee inquiry into cooperative, mutual and member-owned firms, which outlines some of the following points in more detail.¹

Mutuals play an important role in providing value and affordability for consumers of private health insurance. Australia's mutual and not-for-profit health funds currently insure more than 4 million people; this represents 30 per cent of the health insurance market.²

Mutual health insurers are owned by policy holders, so the potential tensions between the objectives of investors and consumers that arises in investor-owned models of health insurance provision are mitigated; **mutuals are fully focused on delivering value to members.** Surpluses in mutuals are returned to policy holders as more affordable or higher quality services. On average, mutual funds pay a higher percentage of contributions as benefits than the big three for-profit insurers:

- Mutual not-for-profit funds: 88.9%
- Big three for-profit funds: 84.8%³

By way of their member-focused business model, **mutuals contribute to the value and affordability of health insurance for the wider community by addressing potential market failures and enhancing competition:**

¹ Submission 40 at

http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/Submissions, particularly at pages 9-10.

² A number of other funds are for-profit subsidiaries of Australian mutual parent companies. If these funds are also included, then mutuals have just under 40% of the market. See

<http://www.apra.gov.au/PHI/Publications/Pages/Operations-of-Private-Health-Insurers-Annual-Report.aspx>

³ Commonwealth Ombudsman, *State of the Health Funds Report 2016*, 25.

<http://www.ombudsman.gov.au/publications/state-of-the-health-funds-report>

- Westfund, a mutual health insurer based in regional New South Wales and Queensland, facilitates access to health insurance in thin markets that may not be attractive to an investor-owned insurer
- HCF, Australia's largest not-for-profit health insurer, plays an important role in enhancing competition and encouraging all players to provide value and affordability to consumers
- A number of member-owned firms provide value by focusing on consumers from a specific sector or industry: for example, RT Health Fund provides products for employees in the transport and energy sector, and their families

While mutual funds continue to provide value in health insurance for members and the wider community, the BCCM notes that, for a variety of reasons, the market share for mutuals and not-for-profits compared with for-profit health insurers has dramatically changed over the past 10 years. For-profits now control a significant majority of the market.

Mutual health insurers face barriers to achieving the growth and innovation needed to compete in the health insurance market. In particular, mutuals face barriers in accessing growth capital. **The BCCM therefore recommends that the Committee consider how a diversity of market players including, among others, mutual, regionally-based, restricted membership and for-profit health insurers, can be preserved into the future.** To that end, we refer the Committee to the findings and recommendations of the Senate Economics References Committee inquiry into cooperative, mutual and member owned firms, particularly recommendations 4, 5, 16 and 17.

The BCCM has included the following appendices for the information of the Committee:

1. About the BCCM
2. About Co-operative and Mutual Enterprises
3. Recommendations of the Senate Economics References Committee inquiry into cooperative, mutual and member-owned firms

The BCCM is able to provide further information on any of the points raised in this submission.

Yours faithfully



Melina Morrison
Chief Executive Officer

1. About the BCCM

The BCCM is the peak body for Australian co-operatives, mutuals and member-owned businesses. The BCCM represents a diverse range of businesses operating in sectors including agriculture, finance and banking, insurance, motoring services, health services, aged care, disability employment, education, indigenous services, social housing and retail.

The BCCM advocates for recognition of the sector and for measures that create a level playing field between co-operatives and other businesses, including implementation of the recommendations of the Senate Economics References Committee report into Cooperative, mutual and member-owned firms.⁴

2. About Co-operative and Mutual Enterprises

Co-operative and mutual enterprises (CMEs) are a significant contributor to the Australian economy: 8 in 10 Australians are a member of at least one CME and annual turnover of the top 100 CMEs (excluding member-owned superannuation funds) reached \$30.5 billion in FY2014/2015.⁵

The distinguishing feature of all CMEs, compared with other corporate entities, is that they are owned by their members and operate for member benefit. Member benefit can mean a wider range of social or non-financial benefits compared with the financial returns enjoyed by a shareholder. Membership is tied to contributing to or making use of the CME; this ensures the CME is made up of people who share its common purpose. CMEs do not provide services to make money, rather they exist and make money to provide services to members and no other stakeholder.

3. Recommendations of the Senate Economics References Committee inquiry into cooperative, mutual and member-owned firms

Recommendation 1

2.32 The committee recommends that the Commonwealth Government ensures that a national collection of statistics and data is undertaken to provide an accurate picture of the scale and extent of the co-operative and mutual sector.

Recommendation 2

3.28 The committee recommends that co-operative and mutuals sector be better represented in government policy discussions, and is actively promoted as a possible option for service delivery particularly where community based initiatives are being considered.

Recommendation 3

3.29 The committee recommends the Commonwealth Government work with states and territories to develop a program of supports to encourage the establishment of new co-operatives and mutual enterprises.

Recommendation 4

3.49 The committee recommends that a mutual enterprise is explicitly defined in the Corporations Act 2001, and its associated regulations.

⁴http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/Report

⁵ Business Council of Co-operatives and Mutuals, National Mutual Economy Report 2016, 17. <http://bccm.coop/wp/wp-content/uploads/2016/11/BCCM-NME-Report-2016.pdf>

Recommendation 5

3.51 The committee recommends that the role of directors in mutual enterprises is defined in the Corporations Regulations to align with the proposed definition of a mutual enterprise in the Corporations Act.

Recommendation 6

3.75 The committee recommends the Commonwealth Government work with states and territories to ensure the continual improvement to advice, guidance and information provided at all stages in the establishment, governance and regulation of co-operatives.

Recommendation 7

3.80 The committee recommends that the Commonwealth Government to work with all relevant stakeholders to undertake a program of education and training to inform them about the role of co-operatives and mutuals.

Recommendation 8

3.81 The committee recommends that the Commonwealth Government examine ways in which it can improve the recognition and understanding of the co-operative and mutual sector in the national secondary school curriculum and that tertiary institutions consider the inclusion of co-operative and mutuals in accounting, business, commerce, economics and law degrees.

Recommendation 9

3.82 The Committee recommends that professional accreditation bodies, such as the Law Society and Institute of Chartered Accountants, require a demonstrated knowledge of the co-operatives and mutual structure before it will licence its members to practice accounting or law.

Recommendation 10

3.92 The committee recommends that the Commonwealth Government amend the Indigenous Advancement Strategy to allow registered co-operatives the same access to allow levels of grant funding as other entities.

Recommendation 11

3.93 The committee recommends that the Commonwealth Government review, and where necessary amend the eligibility criteria for grants and funds across all of government grants and program guidelines to ensure that co-operatives and mutual enterprises are not excluded on the basis of their business structure.

Recommendation 12

4.17 The committee recommends that the co-operative and mutual sector be considered when the government is preparing a Regulatory Impact Statement that accompanies new regulatory policies.

Recommendation 13

4.18 The committee recommends that the Commonwealth Government liaise with its state and territory counterparts to ensure that the regulatory burden for small and medium sized co-operative and mutual enterprise aligns with the needs of these organisations and ensures they are not disadvantaged relative to companies of a similar size.

Recommendation 14

4.26 The committee recommends that the Commonwealth Government closely monitor the progress of the International Accounting Standards Board in developing solutions to bring co-operative shares under the definition of capital under AASB 132, and, where possible, facilitate equivalent amendments as expeditiously as possible.

Recommendation 15

4.42 The committee recommends that Commonwealth and State Governments support the formalisation of some of innovative market-based approaches to raising capital for small and medium sized co-operative and mutual enterprises, in the form of advice and information, as they become available.

Recommendation 16

4.45 The committee recommends that APRA set a target date for the outcome of discussions with the co-operative and mutuals sector on issues of capital raising and bring those discussions to a timely conclusion.

Recommendation 17

4.49 The committee recommends that the Commonwealth Government examine proposals to amend the Corporations Act 2001 to provide co-operative and mutual enterprises with a mechanism to enable them access to a broader range of capital raising and investment opportunities.