We are
hirmaa

19 May 2017

Mr Hammond OAM
c/o The Treasury
Langton Crescent
PARKES ACT 2600
AUSTRALIA

Email: coopsandmutualreview@treasury.gov.au

Dear Mr Hammond OAM

RE: REFORMS TO COOPERATIVES, MUTUALS AND MEMBER OWNED FIRMS

hirmaa welcomes the opportunity to make a submission to the independent review of recommendations 16 and 17 of the Senate inquiry into cooperatives, mutuals and member owned firms.

By way of introduction, hirmaa is the national peak industry body representing 22 not-for-profit, member owned and community based private health insurers, collectively providing health insurance to over one million Australians.

Since its formation in 1978, hirmaa has advocated for the preservation of competition, believing it to be fundamental to Australians having access to the best value health care services. hirmaa has done this by:

- promoting legislation, regulations, policies and practices which increase the capacity of its member organisations to deliver best value health care services and;

- advocating for the preservation of a competitive market, which we see as essential to the integrity and viability of the PHI industry.

hirmaa welcomes the Governments active consideration of recommendations 16 and 17 of the Senate inquiry into cooperatives, mutual and member owned firms, and provides the following response to the Hammond review.

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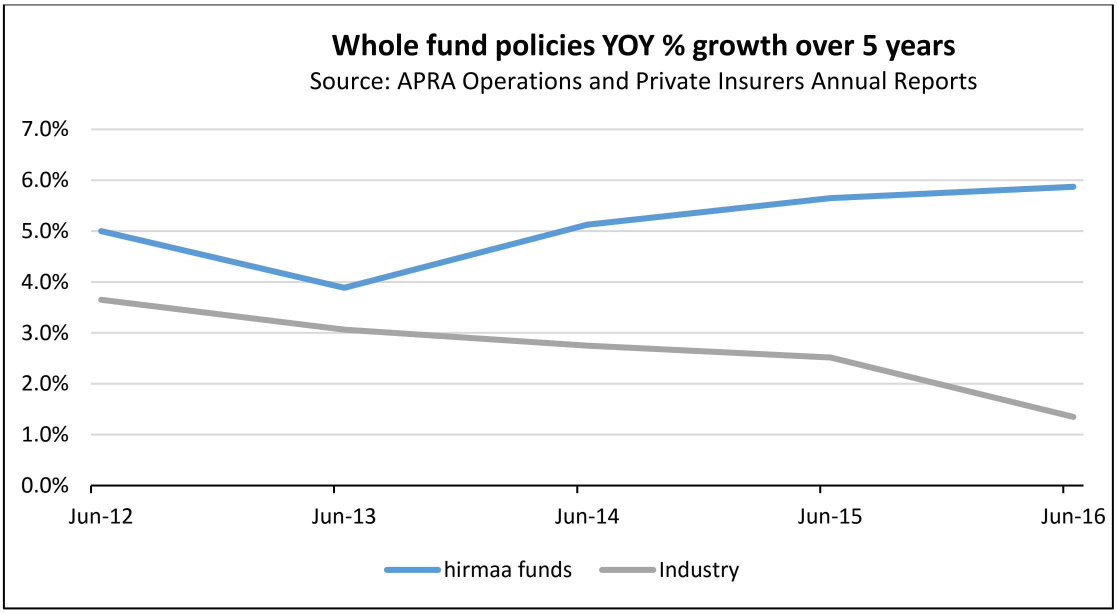
About hirmaa member funds

hirmaa comprises of 22 private health insurers which share one or more of the following attributes, being not-for-profit, member owned, regional or community based. Providing health insurance coverage for over 1 million lives, hirmaa member insurers deliver a highly valued service to key communities of interest spanning regional populations and industry groups including the defence forces, teachers, police, nurses and midwives, transport, mining and doctors. Regional communities in which hirmaa health insurers are headquartered include Townsville, Lithgow, Wollongong, the Latrobe Valley, Launceston, Burnie and Mildura.

hirmaa health insurers are fundamental to competition and choice. Varying in size from 2.1 per cent of the PHI industry to less than 0.1 per cent. As active and involved participants in their respective communities of interest, hirmaa health insurers have a very close affinity with their memberships.

This close affinity is reflected by the fact that hirmaa health insurer's outperform across all key consumer metrics including customer satisfaction, low ratio of complaints to the Commonwealth Ombudsman, member retention, returning benefits paid as a proportion of premiums to policyholders and lower average premium increases (see Appendix 1).

Notably, hirmaa member funds are leading the industry in growth at a time when the number of Australian's with a hospital treatment policy has declined by 7785 people since the September 2016 quarter, and the overall proportion of Australians with private health insurance has fallen for the first time in 15 years.



Given the outstanding value and quality of service provided by the hirmaa health insurers, it is essential that these funds are provided with every opportunity to fulfill their full potential including the development of their businesses and expansion of services in a manner that compliments the existing successful consumer centric business models. Specifically, it is important that such options include capital generating options beyond the current narrow field of equity and debt.

Submission background and context

On 2 March 2015, the Senate referred the following matters to the Economics Referral Committee for inquiry and report by 14 May 2015.

(a) the role, importance, and overall performance of cooperative, mutual and member-owned firms in the Australian economy;

(b) the operations of cooperatives and mutuals in the Australian economy, with particular reference to:

(i) economic contribution,
(ii) current barriers to innovation, growth, and free competition,
(iii) the impact of current regulations, and
(iv) comparisons between mutual ownership and private sale of publicly held assets and services; and

(c) any related matters.

On 24 March 2015, the Senate granted an extension to the committee to report by 30 November 2015.

On 30 June 2015 hirmaa lodged a submission with the enquiry.

On 7 September 2015, the Senate granted the committee a further extension to report by 26 February 2016.

On 30 November 2015, the Senate granted the committee a further extension to report by 17 March 2016.

On 17 March the Committee provided the report to the Senate.

This final report made 17 recommendations across a range of areas including:

Recommendation 16

> *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

> *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.*

On 24 March 2017, the Treasurer, Scott Morrison, announced the appointment of Mr Greg Hammond OAM to conduct an independent review of recommendations 16 and 17 made by the Senate inquiry.

Discussion of recommendations

Recommendation 16

The final report by the Economics Reference Committee as presented to the Senate on 17 March 2016 regarding Cooperative, mutual and member owned firms noted that:

> *In terms of improving access to capital for larger mutuals, the committee is aware of the discussions the sector has been having with APRA in respect of changes to legislation and regulations to facilitate easier access to capital. These discussions should properly include an analysis of the applicability of international developments to Australia, as well as the recognition of possible 'hybrid' entities.*

hirmaa supports Recommendation 16 which recommends that APRA set a target date for the outcome of these discussions, and believes that this will serve as a strong incentive for all parties to engage in and high quality discussions in good faith.

Central to those discussions held to date has been a concern that mutuals are currently only able to issue capital instruments that qualify as equity or debt (Additional Tier 1 and Tier 2 respectively), and that they should be able to issue Common Equity Tier 1 (CET 1) such as a Mutual Equity Interest (MEI).

Presently, a MEI can be created when a mutual issuing equity or debt experience a 'trigger event' such as being declared unviable. In such cases the equity and debt instruments convert to a MEIs. In such circumstances MEIs do not facilitate voting rights (besides what is required under the Corporations Act), and limit both the claim of mutual equity interest holders on any surplus and the amounts that can be paid by way of dividends to these holders.

The design and rational for MEIs is consistent with the principles of mutuality set out in the ASIC Regulatory Guide 147 *Mutually: Financial institutions,* with MEI's having been part of the prudential framework since 2014.

Mutuals, and organizations representing mutuals, have been seeking to work with government entities to amend the prudential standards to allow the issuing of MEIs directly (i.e. on a voluntary basis and not as a response to a 'trigger event') in order to raise capital. This could be done with relatively minor alterations to the current MEI definition that would bring it in line with ASIC Regulatory Guide 174 (*Mutually: Financial institutions).*

All MEI offerings would be subject to suitable internal review and approval processes as well as regulatory oversight. hirmaa notes that APRA is currently in the process of finalizing the expansion of CPS 220 Risk Management Standards to private health insurance. The provision of additional risk processes as outlined in the standards were supported by hirmaa and the private health industry, and we are entirely confident that appropriate measures are in place to be able to ensure that MEIs are offered in a considered and responsible manner.

Recommendation 17

The final report by the Economics Reference Committee as presented to the Senate on 17 March

2016 regarding Cooperative, mutual and member owned firms noted that:

> *The committee is of the view that government should not be placing regulatory barriers that impede the development of one sector or another. Furthermore, it is not the role of the government to provide special consideration to one industry or sector. There does seem to be innovation throughout the mutuals sector, as supported by Dr Crane from the BCCM, who said that these innovations 'shows you the way that co-ops and mutuals are trying to work their way through the current either impediments or structures we have around us to find ways to do this.*

hirmaa strongly supports Recommendation 17 which encourages the Commonwealth Government to examine proposals to amend the Corporations Act 2001 in order to provide co-operative and mutual enterprises with a mechanism to enable them access to a broader range of capital raising and investment opportunities. In order to achieve this hirmaa is eager to see appropriate options developed that will permit all co-operatives and mutuals registered under the Corporations Act 2001 to be provided with an instrument that can be used to raise working capital for business development and growth.

Further, such an instrument would serve to offer additional surety and options in long term strategic planning while also allowing funds to generate additional capital to cover unexpected costs in a manner that does not require the entity to restructure, liquidate existing productive assets or undertaken any other substantial alteration to an effective and efficient business model.

As acknowledged in the final report of the Committee there are a number of international models that can be investigated. One appropriate option would be the development of a Mutual Capital Instrument (MCI) which would allow for the allocation of equity in a co-operative or mutual organization. This equity would act like regular investment capital subject to losses as well as benefits.

Critically, each co-operative and mutual would be able to design features of the equity that would attract the right investor and benefit their business, further, holders of this tranche of equity would not be provided voting rights (besides what is required under the Corporations Act) in order to ensure that the operations and strategic direction of the entity remains full in the hands of members.

Such an arrangement would bring Australia into line with countries such as Canada and the UK in terms of ensuring that co-operatives and mutuals are sufficiently empowered to compete with private entities while maintaining their consumer, member centric business ethos.

It is critical that any proposals to amend the Corporations Act 2001 include careful examination of all relevant law and regulation with a view to ensuring harmonization. Of specific relevance to private health insurance is the Private Health Insurance Act 2007 and regulations associated with prudential supervision by APRA.

Conclusion

Collectively, hirmaa member funds are the success story when it comes to private health insurance. The hirmaa funds collectively outperform the industry across all key consumer metrics including customer satisfaction, complaints to the Commonwealth Ombudsman, member retention, returning benefits paid as a proportion of premiums to policyholders and premium adjustments. Notably, hirmaa member funds are also leading the industry in growth at a time when the number of Australian's with a hospital treatment policy has declined by 7785 people since the September 2016 quarter, and the overall proportion of Australians with private health insurance has fallen for the first time in 15 years.

While the future for hirmaa member funds looks strong, their structure means that there are fewer options to access capital for business growth and development. The difficulty in generating capital for business activity, with the exception of equity or debt, places these consumer focused entities at a disadvantage to those private operations which are able to raise capital in a timely manner without having to restructure or liquidate otherwise productive assets.

Viable options which should be considered as a priority include amending the prudential standards to allow mutual groups to directly issue Mutual Equity Interests (MEIs) as well as legislating for the amendment of the Corporations Act to create a Mutual Capital Instrument (MCI) that would act as an equity like security.

The ability of mutuals to raise capital, subject to appropriate internal considerations and regulatory oversight, will ensure that the co-operative and mutual sector are best placed to reach their full potential and compete and thrive into the future to the benefit of not only their members but the community more broadly.

Yours sincerely,

MATTHEW KOCE
Chief Executive Officer, hirmaa

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Appendix 1: hirmaa member fund performance

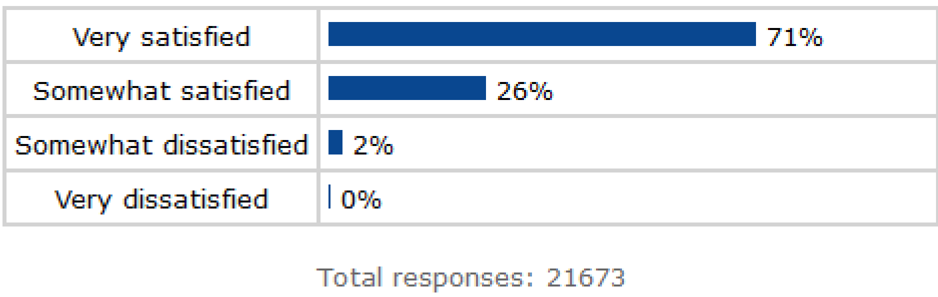
High levels of customer satisfaction

hirmaa member funds consistently experience very high levels of customer satisfaction. This fact is made clear in hirmaa's customer satisfaction survey, which has been running for the last 11 years and is conducted independently by Discovery Research.

Participating hirmaa health insurers have consistently recorded 97 to 98 per cent customer satisfaction rates among their memberships.

hirmaa member fund membership satisfaction*

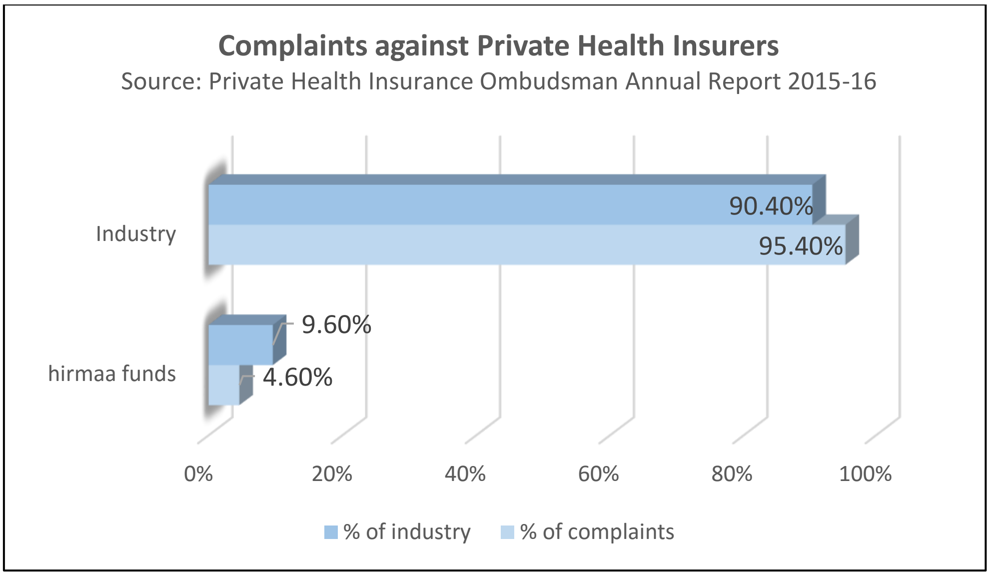
Source: Discovery Research 2016



Commonwealth Ombudsman statistics, indicates very high standards for customer service

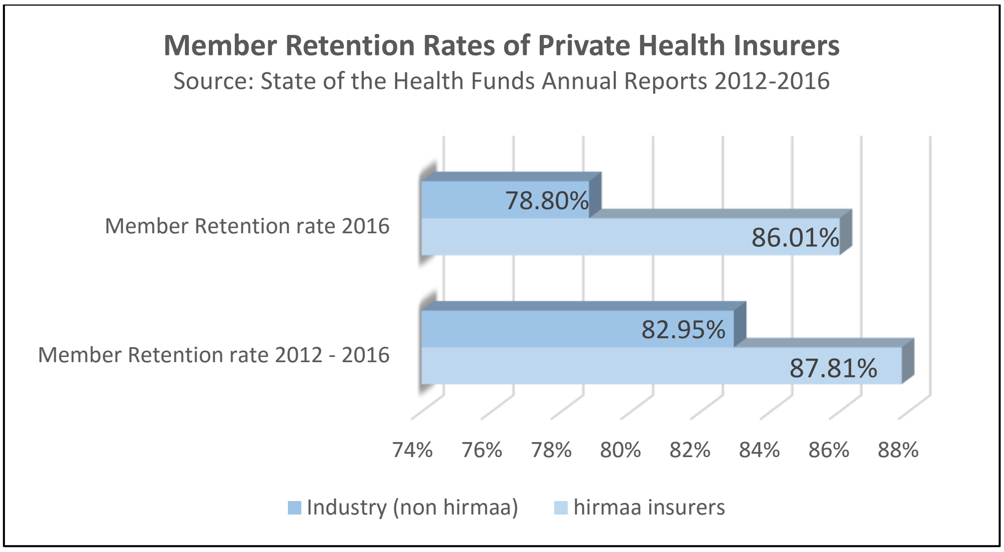
Not-for-profit, member owned, community based and regional insurers represented by hirmaa are trusted and highly respected by their membership.

Commonwealth Ombudsman figures prove year-on-year that hirmaa member funds provide high quality services to their policyholders. While hirmaa funds represent around 10 per cent of the market, they account for less than 5 per cent of all complaints received in 2015-16 by the Commonwealth Ombudsman relating to health insurance products and service.



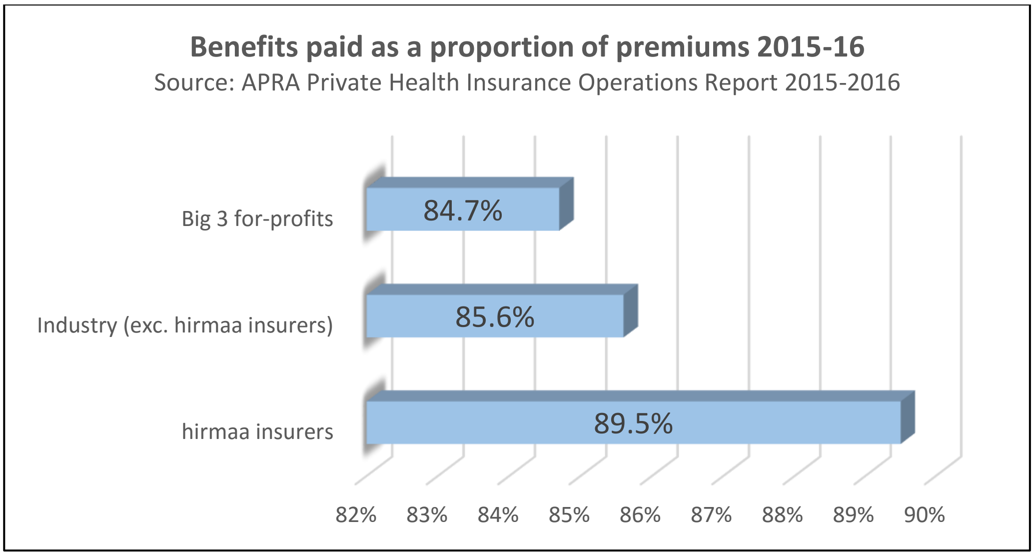
High rates of customer retention

The high levels of member satisfaction and low levels of complaints is reflected in the Commonwealth Ombudsman's annually published customer retention rates which shows hirmaa fund members remaining with their fund at a higher rate than the rest of the indistry.



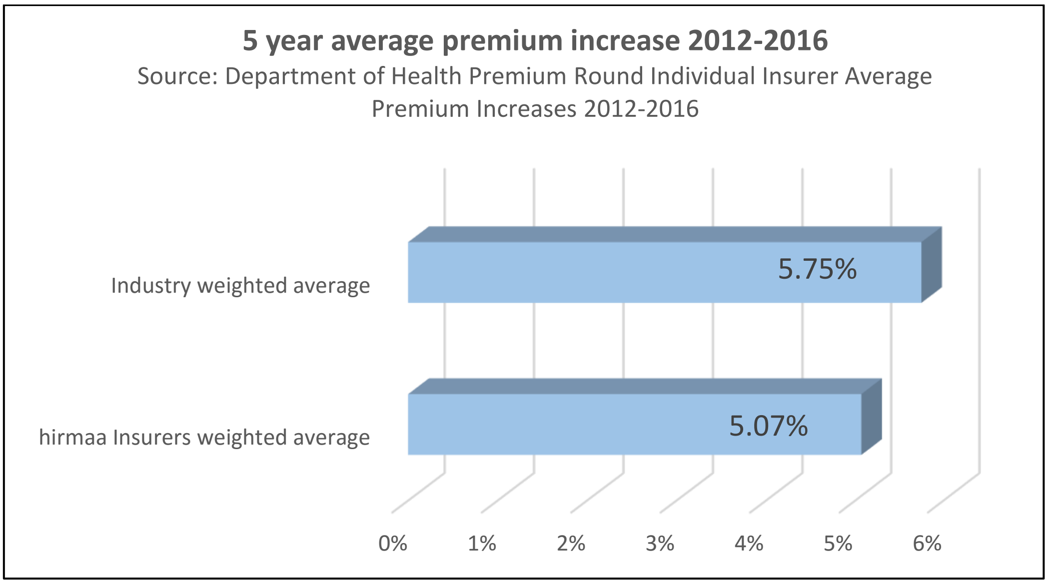
Higher proportions of premiums to hirmaa fund policy holders

The customer focused ethos of hirmaa member funds is reflected in the fact that they re-invest around 90 per cent of all premiums paid, back to policyholders, as benefits. This is in contrast to the country's for-profit insurers, which operate primarily for the benefit of shareholders and return only around 85 per cent.



Lower premium increases over 5 years

The customer focused ethos of hirmaa member funds is further reflected by the fact that hirmaa member funds have a track record of regularly achieving lower annual premium increases than the rest of the private health insurance industry.



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rt health FUND

st.lukes health

Phoenix Health Fund

Defence Health

Latrobe HEALTH SERVICES

doctors health fund
an Avant company

healthcare insurance

TUH
It's my health fund

Mildura HEALTH Fund

WESTFUND HEALTH Insurance

Teachers Health Fund

Queensland COUNTRY HEALTH FUND

Health Partners

ACA HEALTH BENEFITS FUND

Peoplecare

Police Health

rbhs
reserve bank health society
simply better benefits

CDH

Transport Health

NAVY HEALTH

NURSES MIDWIVES HEALTH
Caring for the carers

cua Health