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Mr G Hammond OAM

Via email: coopsandmutualreview@treasury.gov.au

Dear Sir

Royal Automobile Club of Victoria (RACV) Limited (RACV) submission to the Consultation on the Recommendations of the Senate Economic Reference Committee Report on Cooperative Mutual and Member Owned Firms (the Report)

Introduction

RACV welcomes the opportunity to contribute to the consultation on the Recommendations of the Report and the draft Government response to the Report. The consultation seeks submissions on two aspects of the Report.

- whether there should be regulatory and/or legislative changes to improve access to capital for such businesses and if so, what form those changes should take; and
- whether a definition of “mutual enterprise” should be inserted into the *Corporations Act 2001*.

RACV was established in 1903 and is now one of Australia’s largest mutual clubs with over 2 million members. RACV exists to deliver benefits to its members and their communities by informing and advising them, representing members’ interests and providing them with assistance when in need by delivering products and services in its fields of motoring and mobility, leisure and the home.

As a mutual organisation RACV is different from many of our competitors as it is not required to distribute returns in the form of dividends to shareholders. This allows the organisation to return benefits directly to members and the broader Victorian community rather than having regard to shareholder expectations.

The role of mutuals in the economy

RACV strongly believes that mutual organisations have an important role to play in the Australian economy with an estimated 14.8 million people members of around 2,000 cooperative, mutual or member owned organisations around Australia. The mutual structure encourages a longer term focus on sustainable growth and RACV believes this provides significant benefits to the economy. Whilst these businesses are an important part of the Australian economy, RACV believes they are often overlooked and there is limited specific legislation around the mutual structure.

Mutual capital requirements

As with many organisations, mutuals require access to capital to fund future growth and this is especially important in an increasingly competitive and rapidly changing business environment. Many mutuals, including RACV, are registered as companies under the Corporations Act 2001 however their ownership structure means they have fewer capital raising options than shareholder owned companies as capital structures need to be consistent with the membership business model. Issuing ordinary shares would undermine an organisation's mutual status and thereby their commitment to serving their members. As mutuals are generally limited to raising capital through retained earnings or issuing debt, this presents particular challenges and constrains their ability to respond to the external environment and member needs.

These challenges include:

- limitations on the ability of mutuals to grow and develop new products or acquire new businesses through lack of capital;
- limited alternatives to raise capital other than debt finance;
- an inability to increase member engagement through the provision of equity; and
- demutualisation becoming potentially the only viable growth option.

RACV supports the position that alternative structures for raising capital are necessary to ensure mutuals can compete on an equal basis and believes this will require regulatory or legislative action to improve access to capital,

Changes to improve access to capital

We support the recommendations in the Report which would allow mutuals to issue an instrument that may be used to raise additional working capital for business development and growth. Whilst RACV has no current requirement to raise capital, in the content of a need for capital in the future, RACV considers it important that any instrument contains features which are consistent with the mutuality principle to ensure the benefits of a mutual structure are preserved. Ideally such an instrument would allow capital to be raised from both existing members and external investors. RACV notes that similar investment instruments are already in use in Canada, the Netherlands and the UK.

Definition of mutual enterprise

The Report also recommended an amendment to the Corporations Act to define "mutual enterprise". RACV believes that the lack of a clear definition of an incorporated mutual and the absence of any mutual-specific options for such entities to issue securities is an artificial constraint on competition, with mutuals either needing to rely on retained earnings and debt, or consider losing their mutual status by issuing shares designed for proprietary companies should they require additional capital. The amendment of the Corporations Act to clearly establish the basis of an incorporated mutual corporation and the creation of a new capital instrument for mutual businesses that currently have no permanent investment capital, would enable these businesses to attract additional working capital to encourage the development of the mutual sector and the ongoing provision of benefit to members.

RACV is grateful for the opportunity to provide a submission to this review. For further information on this submission please contact Jenny Smeaton on 03 9790 2872.

Yours sincerely



NEIL TAYLOR
MANAGING DIRECTOR & CEO