



# Governance Review Discussion Paper

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Submission to the Australian Prudential Regulation Authority

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10 June 2025

## Introduction

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The Business Council of Co-operatives and Mutuals (BCCM) thanks the Australian Prudential Regulation Authority (APRA) for the opportunity to respond to the Governance Review Discussion Paper.

The BCCM is the national peak body representing the co-operative and mutual enterprise movement across all sectors of the economy, including the prudentially regulated sectors.

The BCCM welcomes APRA's increasing dialogue with the sector on designing and implementing regulation with consideration of the different purpose of mutuals and the resilience they bring to the financial system.

Mutual ownership drives a different corporate purpose of benefiting consumers. Robust, democratic governance arrangements are important in protecting this mutual purpose.

Beyond due consideration of other matters such as the complexity of entities, the BCCM would like to see APRA expressly include *structure* as a factor in the design and application of governance standards. This is consistent with international practice.

We strongly support the objective of strengthened governance in regulated entities. Well-designed regulation cognisant of diverse corporate forms should support the objectives of financial resilience, consumer protection and an inclusive, competitive and dynamic economy.

Our response to the Discussion Paper provides comments on proposals one, four and eight as well as information on the role of mutuals in the financial system and an overview of the importance of structure as an element for the design of governance standards.

The BCCM stands ready to engage with APRA in the next stage of design and consultation.

## Mutuals, the financial system and public policy

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There are more than 120 mutuals active across the prudentially regulated sectors with \$1.8 trillion in combined assets.<sup>1</sup> What all mutuals share is the purpose of delivering social, economic and cultural benefits to their members, rather than seeking to maximise returns to shareholders.

Because the business purpose is different, these firms behave differently, pursuing business plans that aim to secure long-term success for their members. As a result, they positively affect the markets in which they operate, often by restricting the profit-taking of investor-owned businesses that must compete with them, or by extending access to services in thin markets. Eight in 10 Australians are a member of at least one mutually-owned entity.

Research has found that co-ops and mutuals tend to be longer lived than listed entities<sup>2</sup>, are prepared to provide services at a lower profit rate (such as serving regional markets)<sup>3</sup> and allocate a higher proportion of surpluses to local community causes than their investor-owned competitors<sup>4</sup>. Though not faultless, they are ethical and trusted<sup>5</sup> providers of services: no mutual was called to the Hayne Royal Commission.

By operating for different reasons and with a different risk profile to their investor-owned competitors, mutuals contribute to Australia's corporate diversity. This is good for economic dynamism and the resilience of the economic and financial system.<sup>6</sup>

Corporate diversity also enhances choice and access for consumers. Historically, this has been the mission of mutuals: shaping the market to extend fair access to credit, insurance and retirement savings to underserved communities.

Recognising the many benefits they bring to consumers and markets, public policy and regulation should provide an environment supportive of this corporate diversity, where mutuals can grow and serve more members.

The Final Report of the *Better Competition, Better Prices* inquiry, chaired by new Assistant Treasurer Dr Daniel Mulino MP, recommended reforms to regulation of co-operatives and mutuals, including a review of the suitability of prudential regulation, as measures that will support competition and economic dynamism.<sup>7</sup>

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<sup>1</sup> Based on data collected by the BCCM for the [National Mutual Economy Report 2024](#).

<sup>2</sup> [Leading the Resilience Report – BCCM](#)

<sup>3</sup> [Co-operative Employment Economics: Sustaining Employment and Community Prosperity – Per Capita](#)

<sup>4</sup> [Customer-owned banks deliver more community investment and better rates | Customer Owned Banking Association](#)

<sup>5</sup> See [Mutuals the most trusted banking sector](#); [About Our Funds – Members Health](#); [NRMA, motoring clubs among most trusted insurance brands](#).

<sup>6</sup> See for example [Resilience in a Downturn: The power of financial cooperatives | International Labour Organization](#).

<sup>7</sup> [Better Competition, Better Prices](#)

The UK Government has committed to doubling the size of the mutual sector and has asked the prudential regulator to report on the mutuals landscape in regulated sectors.<sup>8</sup> The UK PRA is already consulting on optimising certain regulations specifically for mutuals, as well as implementing the ‘Strong and Simple’ approach.<sup>9</sup> Importantly, there is recognition that a growing mutual sector will on balance be more resilient and therefore align with regulator objectives.

## Structure and governance standards

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Governance standards should be designed and implemented in a way that is appropriate for entities with different structures and purposes because the risk profile and the most effective governance arrangements for entities are partly informed by structure and the purpose that structure supports.

Structure is an accepted element of design and implementation of regulations and governance standards internationally:

*The implementation...should be commensurate with the size, complexity, structure, economic significance, risk profile and business model of the bank and the group (if any) to which it belongs.<sup>10</sup>*

*The diversity of firm structures, sizes, and business models are considered thoroughly as part of our supervisory assessment framework.<sup>11</sup>*

*Regulation should be on terms appropriate to [co-operatives’] nature and functions, which respect their autonomy, and are in accordance with national law and practice, and which are no less favourable than those applicable to other forms of enterprise and social organization.<sup>12</sup>*

Entities with a mutual structure are distinct from those with a non-mutual structure because they adopt democratic governance arrangements as the best means of securing their corporate purpose and operating sustainably.<sup>13</sup> Member Democratic Control is the second International Co-operative Alliance (ICA) co-operative principle.<sup>14</sup>

Since 2019, section 51M of the Corporations Act has defined a mutual entity as a company where members have not more than one vote in a general meeting, effectively enshrining the principle of Member Democratic Control as the legal differentiator between mutuals and non-mutuals.

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<sup>8</sup> [Letter to PRA, 14 November 2024](#)

<sup>9</sup> [Mutual momentum: Advances in Building Society regulation – speech by Charlotte Gerken | Bank of England](#)

<sup>10</sup> [Corporate governance principles for banks](#)

<sup>11</sup> [The Prudential Regulation Authority’s approach to banking supervision](#)

<sup>12</sup> [Recommandation R193 – Recommandation \(no 193\) sur la promotion des coopératives, 2002](#)

<sup>13</sup> [Defining Mutuality – BCCM](#)

<sup>14</sup> [Cooperative identity, values & principles | ICA](#). See also the WOCCU operating principles that adapt these principles for financial co-operatives: [International Operating Principles | World Council of Credit Unions](#).

In his study of the governance arrangements of the largest 60 co-operatives and mutuals globally, Johnston Birchall finds that mutual governance requires expertise, member voice and member representation and that mutuals are at greater risk of failure when these elements are not present in governance arrangements.<sup>15</sup>

The BCCM Chairs' Forum formulated the *Co-operative and Mutual Enterprise Governance Principles* as a framework for robust mutual governance adapted from the ASX governance principles.<sup>16</sup> While consistent in most aspects with the ASX approach, the differences are in relation to democratic engagement with members and the promotion of director understanding of mutual structure, purpose and business model:

- Member representation (Recommendation 3.4)
- Member engagement (Recommendation 1.1, Recommendation 2.2, Recommendation 7.2, Recommendation 7.3)
- Director understanding of structure and purpose (Recommendation 3.6)

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<sup>15</sup> [The Governance of Large Co-operative Businesses](#)

<sup>16</sup> [Governance Principles - BCCM](#)

### **Proposal 1: Skills and Capabilities**

The BCCM supports governance standards that promote boards collectively having sufficient skills to develop and oversee strategy and challenge management.

In particular, the BCCM is supportive of skills matrices as a tool to guide board composition that is recognised in the *Co-operative and Mutual Enterprise Governance Principles*.<sup>17</sup>

We also believe professional development is an important tool to lift the skills of directors that aligns strongly with mutual governance arrangements. We note that governance training for directors will be a requirement for all directors of certain co-operatives under incoming aged care regulations advocated for by the BCCM.<sup>18</sup>

#### **Clarification**

As there is discussion of a range of overlapping measures, appraisal of the proposal would be facilitated by further clarification from APRA. For example, it is not clear at different points to what extent APRA is referring to competencies that should form part of Fit and Proper (Proposal 2), the types of skills an entity should include in a skills matrix or for specific roles.

We are supportive of the thrust of the proposal and hope that in the next stage of design APRA can clarify how the various elements will align with the overall objective of diverse and sufficiently skilled collective boards.

#### **Appropriate application to mutual structures**

As outlined in the previous section, consideration of the structure of entities is acknowledged internationally as part of well-designed governance standards, particularly in relation to board composition:

*Governance of insurers formed as mutuals or co-operatives is different from that of insurers formed as joint stock companies.*<sup>19</sup>

*There may be benefits in tailoring guidance on fitness and propriety and on board composition requirements to banks with varying ownership structures.*<sup>20</sup>

The Discussion Paper acknowledges that the design of tools such as a skills matrix can be in accordance with the ‘needs, size and complexity’ of an entity, and we welcome this

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<sup>17</sup> [Co-operative and Mutual Enterprise Governance Principles](#), Recommendation 3.2.

<sup>18</sup> See [Aged Care Rules 2025 Consultation Draft](#), clause 157-15.

<sup>19</sup> [ICP 7 Corporate Governance](#), 7.0.6.

<sup>20</sup> [High-level considerations on proportionality](#), 28.

acknowledgement. We respectfully request that APRA additionally note the *structure* of an entity as a factor for consideration.

#### **Proposal 4: Independence**

The BCCM cannot support the proposal to require independent directors across group boards in its current form, given the impact it would have on all regulated groups, including interrupting what APRA itself describes as ‘well aligned’ group governance arrangements. In these groups, the proposal would add cost, time and complexity without better outcomes.

The issue could be addressed through extended attention in the conflict management proposal and by potentially considering an ‘if not why not’ approach to adding independent directors to group boards. In the UK PRA statements on this point, it is acknowledged that the size and complexity of a group are factors that inform the need for independent directors.<sup>21</sup> We think that in the Australian context this may a good place to start, given the diversity of group arrangements in the prudentially regulated sectors.

#### **Proposal 8: Director tenure and board renewal**

We note APRA’s acknowledgement of the genuine trade-offs associated with the tenure proposal and the intention to provide flexibility to avoid counter-productive governance outcomes.

A mandated approach may interfere with highly relevant internal judgements, particularly in multi-sector firms, and the desirability of maintaining an average of experience by tenure in a functionally-sized board as against individual tenure approaches that inappropriately subordinate the collective judgement that is expected of boards.

The BCCM submits that the different purposes of prudentially regulated businesses, for example the differences between governing an entity in banking or insurance, should be considered in how flexibility is retained. We also suggest that overseas approaches, such as the presumption of diminution of independence after 12 years, could be drawn on and adapted to reach an optimally flexible design while achieving the policy intent.

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<sup>21</sup> For example [International banks: The PRA's approach to branch and subsidiary supervision](#), 20.

## Conclusion

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The BCCM would welcome the opportunity to work with APRA in the next phase of design and consultation to see structure recognised as a matter for consideration in the governance standards and on clarification and refinement of the proposals commented on.

The BCCM additionally notes its willingness to engage with APRA on a strategic approach to professional development across the mutual sector to build the skills and competencies of current and potential directors.

## About the BCCM

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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 14.4 million memberships, including 60,000 small and medium businesses.

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