FAQs

Safeguarding our mutual

Mutual Capital Instruments explained

How did this new legislation come about?

The Federal Government passed legislation in April this year allowing mutuals to issue Mutual Capital Instruments (MCIs) for the purpose of raising permanent capital.

It was in response to growing community sentiment for more sustainable business models, and a more even playing field for the nation's member-based organisations.

The legislation was supported by both sides of Parliament, after a Senate inquiry and an independent review. They found that mutual entities had historically been constrained in their flexibility and speed of growth because they'd only been able to raise capital through retained earnings or debt. This meant that many mutual entities were at risk of demutualising if they sought to raise permanent capital.

Parliament concluded that mutuals should have the right to raise permanent capital, and proposed the development of MCIs—a specialised financial instrument exclusive to eligible mutual organisations.

The legislation also introduced a definition of 'mutual entity' into the Corporations act for the first time.

What is an MCI?

An MCI is a type of financial instrument that has been created exclusively for Australian mutual organisations. Like other financial instruments MCIs will generally offer a rate of return, and may be able to be bought and sold.

MCIs may, for example, look like bonds (which Australian Unity already issues), which would provide a fixed return to investors. One important difference is that MCIs are classed as permanent capital on our balance sheet, whereas bonds are categorised as debt.

Why does Australian Unity need the ability to issue MCIs?

Currently, Australian Unity can only access capital by raising debt, or using the retained profits we've built up gradually over the past 179 years. While we've undoubtedly achieved a great deal to date, it's a restrictive model that's constrains our ability to fully realise our potential.

MCIs will give us another way to raise funds, strengthening our financial standing and enabling us to bring greater value to our members.

What is a mutual?

A mutual is a company that is collectively owned by its members—typically its customers rather than by shareholders.

Under the new legislation, a mutual has been defined as an organisation where each member is entitled to no more than one vote. This means that everyone has the same voting power, regardless of how many products or services they have with Australian Unity.

Australian Unity was one of Australia's first mutuals. Founded in 1840, members would pool their funds so that they had access to healthcare and other services in times of poor health.

A list of some well-known mutuals can be found on the website of the Business Council for Cooperatives and Mutuals (**visit bccm.com.au**).

How does this new legislation strengthen our mutual status?

We value our mutual status and we see this new legislation as an opportunity to further safeguard it.

Mutuals in Australia have a long history of having to demutualise to raise money. The new legislation means, for the first time, we can issue permanent capital without having to demutualise. It's a positive step forward for Australian Unity.

Have MCIs been implemented in other markets before?

Yes, similar capital instruments have been implemented successfully in the UK and other jurisdictions have long had legal arrangements that support the issuance of different types of instruments, for example, the Netherlands.

Some individual examples are available in a paper prepared by the Business Council of Cooperatives and Mutuals for a review being conducted by the Productivity Commission, which is available at *pc.gov.au/__data/assets/pdf_file/0004/221872/sub027-financial-system-attachment1.pdf.*

Is the introduction of MCIs in response to a particular financial need?

No. Australian Unity is in a sound financial position, and the introduction of MCIs is not in response to financial performance or a specific financial need. Instead, this is about strengthening our mutual structure for the medium and long-term, and bringing us into line with where the rest of the market is likely to head.

Does this change Australian Unity's structure, purpose or values?

No. The changes made by Parliament recognise mutuals as a specific corporate form for the first time. This is an important development that means we can raise permanent capital without making any changes to our structure, our purpose or our values.

Safeguarding our mutual

Mutual Capital Instruments explained

How does this new legislation help us build on our purpose as an organisation?

For 179 years, Australian Unity has been driven by a singular goal: to enhance the wellbeing of its members and customers. By unlocking new capital – additional funds on top of our existing funds – we can make an even bigger impact.

The new funds, which are derived from issuing permanent capital, will allow us to improve our existing services and further invest in Australia's social infrastructure.

It will mean we are not just reliant on the profitability of our existing services (although that remains important). And it will better protect our organisation for the long-term as we realise our potential in a sustainable and efficient way.

Will MCIs have any effect on the cost of private health insurance premiums?

Not directly. There are a number of factors that influence the cost of private health insurance premiums such as the aging population, health care price inflation and the increased use of the healthcare system.

What safeguards are in place to ensure MCI Members don't have undue influence over the organisation?

We've included a wide range of stringent measures in the Constitutional update to ensure Australian Unity remains a mutual and is protected from undue influence.

- MCI Members will have no right to vote on winding up the organisation
- MCI Members will not be able to propose or vote on any demutualisation proposals
- MCI Members would have no access to profits, above the original purchase price and interest owed, in the unlikely event that the organisation was wound up
- If a future board ever seeks to dilute any of the three measures outlined above, appropriately substantial levels of member information, quorum levels and voting thresholds would have to be met.

The MCI is referred to in the legislation as a 'share'. How is it different from ordinary corporate shares?

MCIs have been classified under the Corporations Act as a type of share, but they are quite different from the ordinary shares that public companies issue on the stock exchange.

Firstly, Australian Unity remains member owned, regardless of how many MCIs are issued.

Secondly, each member has access to only one vote each, regardless of how many MCIs they hold. With normal public companies, shareholders generally have one vote for every share they hold.

Finally, the changes we're proposing to the Constitution prevent MCI holders from voting on demutualisations and wind-ups. These significant safeguards will further protect our existing corporate structure and ensure that we continue to enjoy the benefits of being a mutual.

How will MCIs be issued?

There are a number of different ways that we could issue an MCI, and it will depend on changing investor appetite. That's why the proposed changes will allow the board to issue MCIs on different terms.

One option will be to issue an MCI that offers a fixed rate of return, subject to profit or capacity to pay. These MCIs would be permanent and give no right of redemption.

These types of instruments have been successfully issued by mutuals in the UK, with some units held by existing members, some listed on the stock exchange and some issued to large institutions that share a common purpose.

How do MCIs compare with Australian Unity bonds?

There are some similarities:

- Bonds offer quarterly interest payments based on a fixed or floating interest rate. MCIs, depending on the structure, might also offer periodical returns based on profits or other calculated means.

But there are some important differences too:

- Bonds are a debt and sit on our balance sheet as a liability, whereas MCIs will be categorised as permanent capital.
- Bond holders are not members of Australian Unity and cannot vote at the AGM. MCI holders can be members of Australian Unity and may be able to vote at General meetings, except for issues related to wind-ups and demutualisation.

What additions need to be made to the Constitution?

We'll need to make some specific additions to the Constitution to match the requirements of the Corporations Act. You can read the full amendments in the Notice of Meeting, but in summary we need to:

- include a statement saying that Australian Unity is a mutual entity that intends to issue MCIs
- make it clear that the board has the power to issue MCIs
- set out the rights and obligations of MCI holders

Where can I find out more?

If you'd like more information about MCIs or you have a specific question you can get in touch with our Member Relations Officer at **memberrelations@australianunity.com.au**.